



building on
strength 08
financial review

who we are

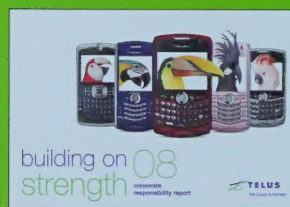
TELUS is a leading national telecommunications company in Canada, with \$9.7 billion of annual revenue and 11.6 million customer connections including 6.1 million wireless subscribers, 4.2 million wireline network access lines and 1.2 million Internet subscribers. As a result of our national growth strategy, in 2008, revenue grew by 6.4 per cent and total connections increased by 448,000. TELUS provides a wide range of communications products and services including data, Internet protocol (IP), voice, entertainment and video.

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For an overview of our financial and operating highlights, goals and challenges, refer to the TELUS 2008 annual report – corporate review or visit telus.com/annualreport.



For information on our commitment to economic, social and environmental sustainability, refer to the TELUS 2008 corporate social responsibility report or visit telus.com/csr.

Caution regarding forward-looking statements summary

This document contains statements about expected future events and financial and operating results of TELUS that are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly this document is subject to the disclaimer and qualified in its entirety by the assumptions (including assumptions for 2009 targets), qualifications and risk factors referred to in the Management's discussion and analysis starting on page 12 of the TELUS 2008 annual report – financial review and in other TELUS public disclosure documents and filings with securities commissions in Canada (on sedar.com) and in the United States (on EDGAR at sec.gov). TELUS disclaims any intention or obligation to update or revise forward-looking statements, except as required by law, and reserves the right to change, at any time at its sole discretion, its current practice of updating annual targets and guidance.

All financial information is reported in Canadian dollars unless otherwise specified.

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building on strength

Dear investor,

In 2008, TELUS' solid operating performance and conservative financial policies resulted in sustainable cash flows, a strong balance sheet and ample liquidity. Operating in a dynamic growth industry, we are positioned to weather the volatile capital markets and weakening economy, while making strategic investments that are building strength for the future.

Building on 2008 performance

TELUS delivered solid financial performance in 2008. Revenue increased by 6.4 per cent to \$9.7 billion, largely due to wireless and data growth. EBITDA (earnings before interest, taxes, depreciation and amortization) of \$3.8 billion was up only one per cent, as growth in wireless and data was largely offset by erosion of traditional telecom services, short-term dilutive growth initiatives and higher restructuring costs in support of efficiency activities. Underlying earnings per share (EPS) increased one per cent to \$3.37.

Given the importance of communications to consumers and businesses and a high proportion of recurring subscription revenues, telecommunications is a resilient business, which has allowed us to continue generating healthy operating cash flow.

As expected, capital expenditures increased by five per cent to \$1.9 billion as we invested in strategic growth initiatives such as launching Koodo Mobile®, our new basic wireless service. We also continued to make J-curve investments that are initially dilutive to earnings and cash flow. These include building a next generation national wireless network, implementing large enterprise data contracts in Central Canada and continuing broadband service expansion that enables the further roll-out of TELUS TV®.

Over time, we anticipate meaningful profit contribution from these assets. In the meantime, we must focus on efficiency initiatives to help offset the start-up costs during dilutive stages of these investments. Managing costs in all areas of our business will also help mitigate the impacts of a recession, competition and technological substitution on business volumes.



To that end, significant efficiency initiatives are underway including a management salary freeze. Certain of these efforts are reflected in restructuring costs tripling in 2008 to \$59 million and a forecast for 2009 of \$50 million to \$75 million.

We continue to provide clarity for our investors by setting consolidated and segmented annual targets that we confirm or update quarterly.

Consolidated 2009 targets ¹		Change over 2008
Revenue	\$10.025 to \$10.275 billion	4 to 6%
EBITDA	\$3.75 to \$3.9 billion	(1) to 3%
EPS – basic ²	\$3.40 to \$3.70	1 to 10%
Capital expenditures	Approx. \$2.05 billion	10%

¹ See Caution regarding forward-looking statements on the inside front cover.

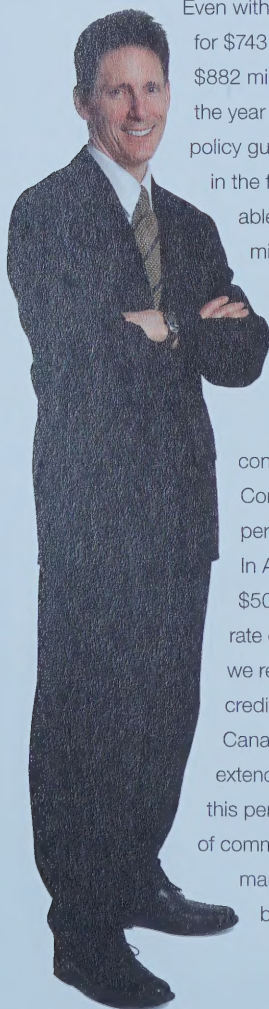
² EPS change is compared to \$3.37, which is the 2008 EPS excluding income tax-related adjustments.

Maintaining financial and funding strength

TELUS' well-established financial policies are designed to support our business through market cycles and enable the Company to consistently deliver on our national growth strategy.

Even with the 2008 purchases of Emergis for \$743 million and wireless spectrum for \$882 million, net debt to EBITDA ended the year at 1.9 times, within our long-term policy guideline of 1.5 to two times. We are in the fortunate position of having no sizeable long-term debt maturities until mid-2011 and a \$2 billion bank credit facility committed to 2012. At year-end, we also had more than \$1 billion of available liquidity.

Notably, TELUS' traditional sources of capital have been consistently open and available to the Company throughout this extended period of capital market volatility. In April, we successfully issued \$500 million of debt at a reasonable rate of 5.95 per cent. In December, we renewed a \$700 million 364-day credit facility with a select group of Canadian banks and the undrawn facility extends to March 2010. Throughout this period, we were a consistent issuer of commercial paper in contrast to market access challenges faced by many other issuers.



Additionally, we have maintained a constructive relationship with the four credit ratings agencies and retained investment grade ratings consistent with our policy objective range of BBB+ to A–.

If conditions become advantageous, TELUS in 2009 may access the public debt markets for long-term financing or establish new term credit facilities to refinance short-term financing sources or upcoming debt maturities.

Using cash flow to fund core business and create value

TELUS is moving forward from a position of financial strength. We are committed to maintaining our prudent financial policies, which have positioned us well despite the turbulent markets, and we plan to again operate within these guidelines for 2009.

A new cash requirement for 2009 is the expected commencement of more than \$320 million in net cash tax payments. Additionally, even though our defined benefit pension plans began 2008 in a strong surplus position, they have of course experienced negative returns, although they continue to outperform the average benchmarks. As a result, in 2009 we are expecting an additional non-cash impact on pension expenses and an increase of approximately \$110 million in cash funding.

Despite these developments, a combination of TELUS' strong balance sheet and cash flow generation continues to allow the Company to return capital to our shareholders, while also reinvesting in our business. For example, capital expenditures are increasing by approximately \$200 million in 2009, largely to fund the build of a national next generation wireless network that is geared toward creating long-term growth and value.

In keeping with our target dividend payout ratio guideline of 45 to 55 per cent of sustainable net earnings, we declared a fifth consecutive annual increase in our quarterly dividend to 47.5 cents per share commencing in January 2009 – approximately \$600 million on an annual basis. We also renewed our share repurchase program for a smaller amount, which will be a discretionary use of cash in 2009.

Building on disclosure and governance leadership

At TELUS, we have a long-standing commitment to full and fair disclosure and best practices in corporate governance. We continue to gain external recognition in this regard and, in 2008, received:

- An A+ rating and ranked third in the world in the Annual Report on Annual Reports, an international ranking by e.com of our 2007 report
- The Overall Award of Excellence for Corporate Reporting from the Canadian Institute of Chartered Accountants (CICA) covering all facets of our disclosure program
- The Award of Excellence for Financial Reporting from the CICA.

TELUS links governance to corporate social responsibility



We are also making good progress in our transition from Canadian generally accepted accounting principles (GAAP) financial statements to International Financial Reporting Standards in 2011. The assessment and scoping of the project, and identification and selection of accounting policies needing changes, are well underway and we expect to maintain two parallel sets of accounting records in 2010.

For more information relating to our corporate governance practices and our commitment to high ethical standards, please see the next section of this report.

Building on leadership in corporate social responsibility

We believe having strong corporate governance at TELUS provides the necessary foundation for leadership in corporate social responsibility (CSR). In fact, true sustainable leadership requires the integration of CSR into our corporate strategy, cultural values and decision-making.

As a result, we are increasingly incorporating a triple bottom line approach to key business decisions by balancing sustained economic growth with a diligent focus on environmental and social goals. Recognizing that what gets measured gets done, we continue to set annual CSR priorities and obtain third-party verification of the results. Please visit telus.com/csr to view our CSR report.

Our established track record in CSR continues to be externally recognized. In 2008, we received Honourable Mention for Excellence in Sustainable Development Reporting from the CICA and were one of only five Canadian companies named to the 2009 Global 100 Most Sustainable Corporations list.

Building on our strength

We have maintained a responsible and conservative approach to our financial strategy. This approach has served us well for many years. Our prudent financial policies and stewardship have led to TELUS maintaining a strong balance sheet, ample liquidity and an enviable debt maturity profile, which are well suited to current market conditions.

TELUS remains flexible and adaptable to both the opportunities and challenges in this dynamic industry. Management continues to closely monitor national and regional economies and associated business volumes to ensure we make timely adjustments to changing circumstances. In this way, we are striving to achieve our financial targets, consistent with our financial policies, while maintaining our profitability, cash flow and financial strength. Building on this strength, we are determined to meet the challenges of 2009 and stay on course to invest in the future and create value for shareholders.

Sincerely,

Robert McFarlane
Executive Vice-President and
Chief Financial Officer
February 20, 2009

building on our commitment to corporate governance

TELUS' commitment to full and fair financial disclosure, integrity and best practices in corporate governance provides a solid foundation for what we do. We strive to remain a leader in this important area of investor and regulatory attention.

Building on good governance

Throughout 2008, we continued to pursue opportunities for corporate governance improvement. Notably, TELUS remains in full compliance with the corporate governance standards of Canadian securities regulators and Section 303A of the New York Stock Exchange (NYSE) governance standards.

Initiatives we continued to pursue in 2008 include:

- Prioritizing certain desired skills and attributes, in light of the business strategy and direction of the Company, for Board succession planning purposes
- Preparing for and implementing the new Canadian executive compensation disclosure rules that came into effect at the end of 2008
- Implementing continuous improvements to TELUS' pension plan governance structure based on a consultant's review, which concluded that our governance structure is very sound and compares favourably with other pension plans in Canada.

Building on our voluntary practices

At TELUS, we take a proactive approach to corporate reporting and governance, often surpassing what is legally required for the benefit of our investors. Voluntary practices include:

- Having the Chief Compliance Officer report to the Audit Committee on a quarterly basis
- Continuously improving enterprise risk governance by:
 - Conducting extensive enterprise risk and control assessments and updating our key risk profile and internal audit program throughout the year, which enables discussion with senior management and quarterly status reports to the Audit Committee
 - Enhancing our enterprise risk and control survey to assess perceptions of resiliency and readiness

to respond to key risks, and assessing perceptions and tolerance for key risk categories

- Assigning executive-level owners for mitigating key risks
- Integrating information across our strategic planning process and enterprise risk assessment activities
- Having an independent third party conduct an audit of select quantitative information in the annual TELUS corporate social responsibility report
- Publicly disclosing, on a voluntary basis, our corporate disclosure policy, insider trading policy and entire Board policy manual, including all of the Board committees' terms of reference. Only the Audit Committee's terms of reference is required by regulation. This information is available at telus.com/governance.

Building on integrity

We are dedicated to adhering to the highest level of ethics and integrity in interactions with our shareholders, customers, team members and communities.

Each year, we update our ethics policy to reflect new information and issues. In 2008, we added a section on the personal use of communication devices, enhanced the guidelines related to international operations, and strengthened expectations for team members in property risk management. We also developed a mandatory online course, TELUS Integrity 2008, that incorporated the previously separate ethics, respectful workplace, corporate security and privacy training modules. The new course was successfully completed by 100 per cent of team members.

We continued to operate EthicsLine, a hotline for anonymous and confidential questions or complaints on accounting, internal controls or ethical issues. Calls are handled by an independent organization, offering external and internal users round-the-clock access, assurance of anonymity and multi-language service.

building on best practices

Our long-standing best practices provide a foundation for TELUS to effectively pursue corporate governance excellence. Some of these practices include:

- Adopting a majority voting policy for the election of directors
- Separating the roles of Chief Executive Officer and Board Chair
- Conducting in-camera sessions at each regularly scheduled meeting of the Board and its committees where the independent directors meet without management present
- Having both the Chief Internal Auditor and the external auditor report to the Audit Committee
- Conducting in-camera sessions at each quarterly Audit Committee meeting where committee members meet separately with the external and internal auditors without management present.

In 2008, a total of 356 calls were received by the EthicsLine; 248 of these involved advice on ethical situations or complaints. Each complaint was investigated, resolved appropriately and reported to the Audit Committee. The Ethics Office determined that 64 breaches of the policy occurred, and none involved fraud by team members with a significant role in internal controls over financial reporting. Of all complaints made to our Ethics Office since it began in 2003, no breaches of the ethics policy have involved fraudulent financial reporting.

We engaged an independent third party to assess TELUS' Ethics Office. They assessed our ethics policy, related processes, hotline and reporting practices, focusing on their design and implementation. Their report indicated that these processes were generally consistent with leading practices for public companies, and identified continuous improvement opportunities that we are reviewing and, as appropriate, will implement.

Building on communication

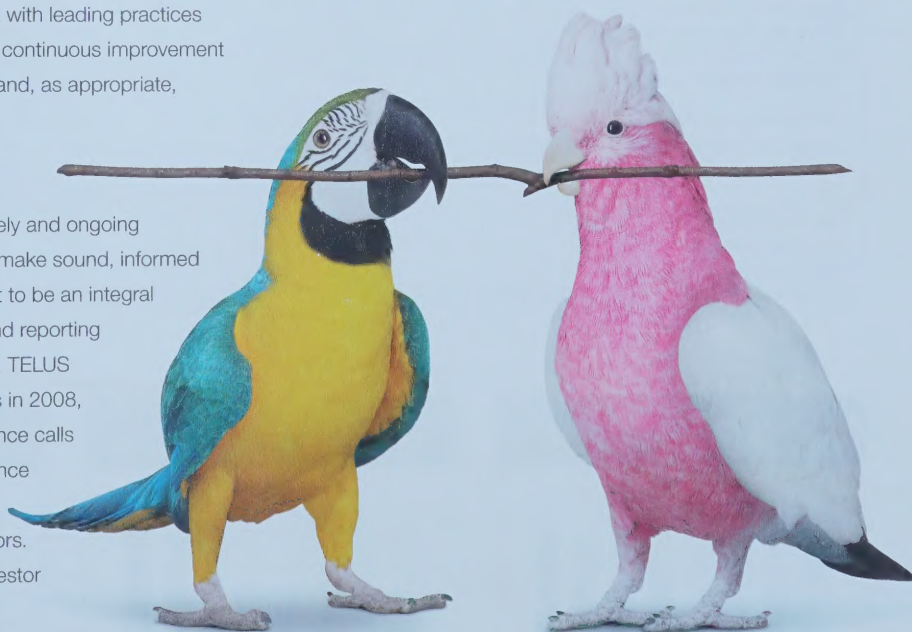
We recognize the importance of timely and ongoing communication in helping investors make sound, informed investment decisions and consider it to be an integral part of our corporate governance and reporting efforts. To keep investors up to date, TELUS participated in many investor forums in 2008, including six TELUS-hosted conference calls and webcasts, four investor conference presentations and numerous meetings with more than 150 investors. More details can be found in the Investor information section of this report.

Building on external recognition

TELUS continues to receive recognition for excellence in corporate governance and reporting. In 2008, in addition to being recognized for the third best annual report in the world by the Annual Report on Annual Reports, and best overall reporting in Canada by the Canadian Institute of Chartered Accountants (CICA), TELUS received the:

- Award of Excellence for Financial Reporting from the CICA
- Honourable Mention for Corporate Governance Disclosure from the CICA, the fourth year of recognition in this category.

Clearly, this recognition indicates we are building on a position of considerable strength as we continuously work to improve our corporate governance and reporting.



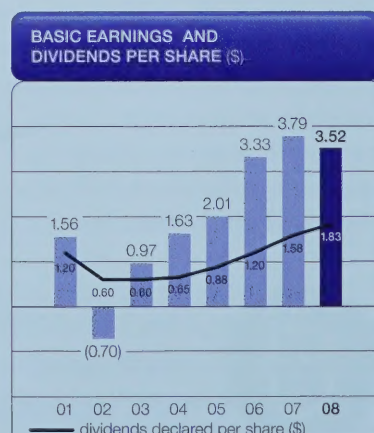
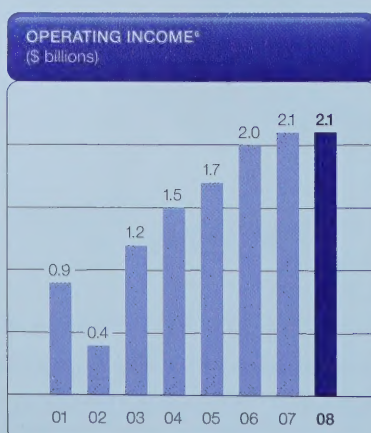
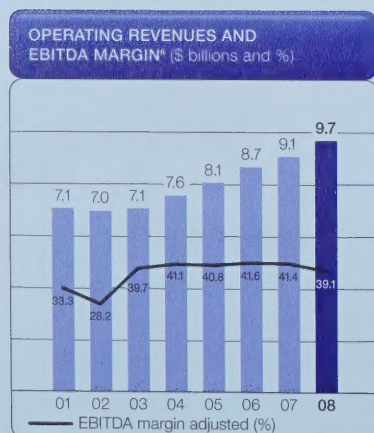
Visit telus.com/governance for a full statement of TELUS' corporate governance practices, including disclosure regarding our governance practices compared to those required by the NYSE, or refer to the 2009 TELUS information circular.

annual consolidated financials

Consolidated								
Income statement (millions)	2008	2007	2006	2005	2004	2003	2002	2001
Operating revenues	\$ 9,653	\$ 9,074	\$ 8,681	\$ 8,143	\$ 7,581	\$ 7,146	\$ 7,007	\$ 7,080
Operations expense ¹	5,815	5,296	4,998	4,769	4,413	4,277	4,464	4,526
Net-cash settlement feature expense ²	—	169	—	—	—	—	—	—
Restructuring costs	59	20	68	54	53	28	570	198
EBITDA	3,779	3,589	3,615	3,320	3,115	2,841	1,973	2,356
Depreciation and amortization	1,713	1,615	1,576	1,624	1,643	1,653	1,570	1,494
Operating income from continuing operations	2,066	1,974	2,039	1,696	1,472	1,188	403	862
Other expense (income), net	36	36	28	18	9	23	43	(17)
Financing costs	463	440	505	623	613	640	615	637
Refinancing charge from debt restructuring	—	—	—	—	—	—	—	96
Income (loss) from continuing operations before income taxes, non-controlling interest and goodwill amortization	1,567	1,498	1,506	1,055	850	525	(255)	146
Income taxes	436	233	353	330	264	181	(39)	97
Non-controlling interest	3	7	8	8	4	3	3	3
Goodwill amortization	—	—	—	—	—	—	—	175
Income (loss) from continuing operations	1,128	1,258	1,145	717	582	341	(219)	(129)
Income from discontinued operations	—	—	—	—	—	—	—	592
Net income (loss)	1,128	1,258	1,145	717	582	341	(219)	463
Preference and preferred share dividends	—	—	—	—	2	4	4	4
Common share and non-voting share income (loss)	\$ 1,128	\$ 1,258	\$ 1,145	\$ 717	\$ 580	\$ 337	\$ (223)	\$ 459

Share information ³	2008	2007	2006	2005	2004	2003	2002	2001
Basic weighted average shares outstanding (millions)	320	332	344	357	355	349	318	294
Shares issued (millions)	—	—	4	12	9	6	44	15
Shares repurchased (millions)	7	14	16	21	2	—	—	—
Year-end shares outstanding (millions)	318	324	338	350	359	352	346	302
Basic earnings per share	\$ 3.52	\$ 3.79	\$ 3.33	\$ 2.01	\$ 1.63	\$ 0.97	\$ (0.70)	\$ 1.56
Dividends declared per share	1.825	1.575	1.20	0.875	0.65	0.60	0.60	1.20

Financial position (millions)	2008	2007	2006	2005	2004	2003	2002	2001
Capital assets, at cost	\$ 32,581	\$ 30,129	\$ 28,661	\$ 27,456	\$ 26,632	\$ 25,778	\$ 25,037	\$ 23,888
Accumulated depreciation and amortization	20,098	19,007	17,679	16,514	15,411	14,215	13,063	11,129
Total assets	19,160	16,988	16,661	16,347	17,930	17,537	18,241	19,246
Net debt ⁴	7,286	6,141	6,278	6,294	6,628	7,871	8,884	8,961
Total capitalization ⁵	14,621	13,197	13,350	13,287	13,747	14,468	15,238	15,848
Long-term debt	6,348	4,584	3,475	4,616	6,300	6,571	8,283	8,724
Total shareholders' equity	7,182	6,926	7,048	6,967	7,106	6,586	6,342	6,879



quarterly consolidated financials

Consolidated								
Income statement (millions)	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Operating revenues	\$ 2,454	\$ 2,450	\$ 2,399	\$ 2,350	\$ 2,330	\$ 2,310	\$ 2,228	\$ 2,206
Operations expense ¹	1,479	1,465	1,477	1,394	1,370	1,324	1,339	1,263
Net-cash settlement feature expense ²	—	—	—	—	1	(7)	1	174
Restructuring costs	38	10	4	7	6	6	3	5
EBITDA	937	975	918	949	953	987	885	764
Depreciation and amortization	435	436	420	422	454	403	391	367
Operating income	502	539	498	527	499	584	494	397
Other expense, net	11	6	2	17	6	8	18	4
Financing costs	118	122	114	109	109	86	127	118
Income before income taxes and non-controlling interest	373	411	382	401	384	490	349	275
Income taxes	88	125	114	109	(19)	79	94	79
Non-controlling interest	—	1	1	1	3	1	2	1
Net income and common share and non-voting share income	\$ 285	\$ 285	\$ 267	\$ 291	\$ 400	\$ 410	\$ 253	\$ 195

Share information ³	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Basic weighted average shares outstanding (millions)	318	319	321	324	326	330	333	337
Shares issued (millions)	—	—	—	—	—	—	—	—
Shares repurchased (millions)	—	2	2	3	3	4	3	4
Period-end shares outstanding (millions)	318	318	320	321	324	327	332	334
Basic earnings per share	\$ 0.90	\$ 0.89	\$ 0.83	\$ 0.90	\$ 1.23	\$ 1.24	\$ 0.76	\$ 0.58
Dividends declared per share	0.475	0.450	0.450	0.450	0.450	0.375	0.375	0.375

1 Operations expense for 2007 excludes net-cash settlement feature expense.

2 An incremental charge relating to the introduction of a net-cash settlement feature for share option awards granted prior to 2005.

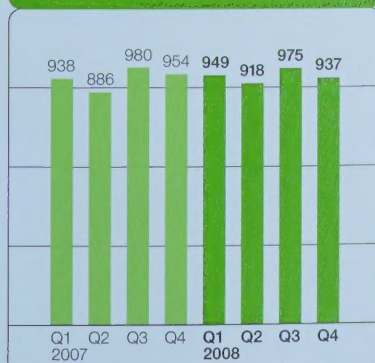
3 Common shares and non-voting shares.

4 The summation of Long-term debt excluding unamortized debt issuance cost, current maturities of Long-term debt, net deferred hedging liability related to U.S. dollar Notes and proceeds from securitized accounts receivable, less Cash and temporary investments.

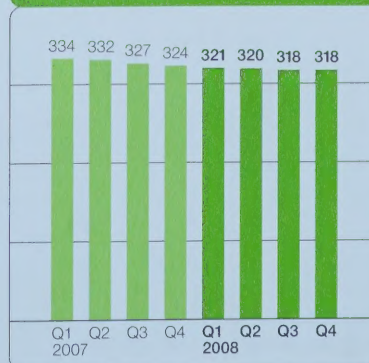
5 Net debt plus Non-controlling interest and Shareholders' equity, excluding accumulated other comprehensive income (loss).

6 The 2007 amount has been adjusted to exclude an incremental charge of \$169 million relating to the introduction of a net-cash settlement feature for share option awards granted prior to 2005.

EBITDA*
(\$ millions)



PERIOD-END SHARES OUTSTANDING
(millions)



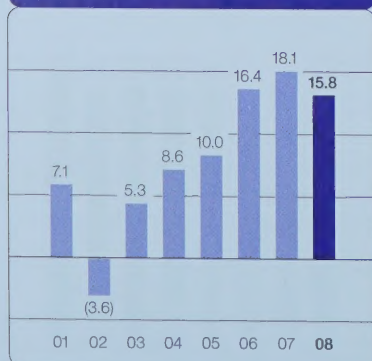
DIVIDENDS DECLARED PER SHARE
(cents)



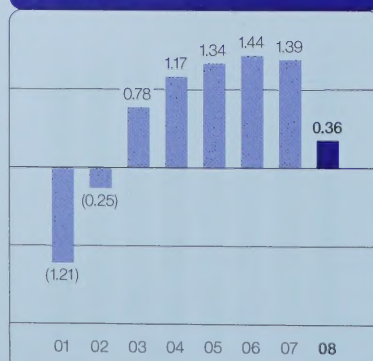
annual operating statistics

Consolidated	2008	2007	2006	2005	2004	2003	2002	2001
Cash flow statement information								
Cash provided by operating activities (millions)	\$ 2,819	\$ 3,172	\$ 2,804	\$ 2,915	\$ 2,538	\$ 2,134	\$ 1,731	\$ 1,390
Cash used by investing activities (millions)	(3,433)	(1,772)	(1,675)	(1,355)	(1,300)	(1,198)	(1,691)	(1,821)
Cash provided (used) by financing activities (millions)	598	(1,369)	(1,149)	(2,448)	(348)	(921)	(66)	348
Performance indicators								
Net income (loss) (millions)	\$ 1,128	\$ 1,258	\$ 1,145	\$ 717	\$ 582	\$ 341	\$ (219)	\$ 463
Dividend payout ¹	54%	47%	45%	55%	49%	62%	n.m.	77%
Return on common equity ²	15.8%	18.1%	16.4%	10.0%	8.6%	5.3%	(3.6%)	7.1%
Return on assets ³	14.7%	18.7%	16.8%	17.8%	14.2%	12.2%	9.5%	7.2%
EBITDA interest coverage ratio ⁴	8.3	8.2	7.3	5.4	5.2	4.5	3.6	4.0
Free cash flow (millions) ⁵	\$ 361	\$ 1,388	\$ 1,443	\$ 1,336	\$ 1,167	\$ 776	\$ (249)	\$ (1,214)
Net debt to EBITDA ratio ⁶	1.9	1.7	1.7	1.9	2.1	2.7	3.5	3.5
Net debt to total capitalization	49.8%	46.5%	47.0%	47.4%	48.2%	54.4%	58.3%	56.5%
Capital expenditures (millions)	\$ 1,859	\$ 1,770	\$ 1,618	\$ 1,319	\$ 1,319	\$ 1,253	\$ 1,693	\$ 2,249
Payment for wireless spectrum (millions)	\$ 882	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ 356
Capex intensity ⁷	19%	20%	19%	16%	17%	18%	24%	32%
Capex intensity ⁷ including payment for wireless spectrum	28%	20%	19%	16%	17%	18%	24%	37%
Total customer connections (000s) ⁸	11,595	11,147	10,715	10,211	9,716	9,175	8,708	8,215
Other								
Total salaries and benefits (millions) ⁹	\$ 2,326	\$ 2,329	\$ 2,028	\$ 1,897	\$ 1,914	\$ 1,859	\$ 1,971	\$ 1,930
Total active employees ¹⁰	36,600	34,200	31,900	29,800	25,800	24,700	25,800	30,700
Full-time equivalent (FTE) employees ¹¹	35,900	33,400	31,100	n.m.	24,800	23,800	24,800	-
EBITDA per average FTE employee (000s) ^{11,12}	\$ 111	\$ 117	\$ 126	n.m.	\$ 130	\$ 119	\$ 91	\$ -

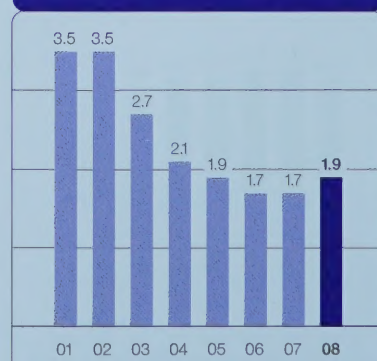
RETURN ON COMMON EQUITY
(%)



FREE CASH FLOW
(\$ billions)



NET DEBT TO EBITDA RATIO



quarterly operating statistics

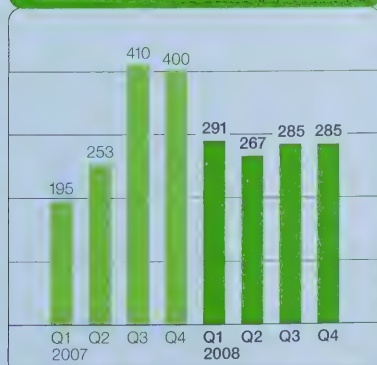
Consolidated	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Cash flow statement information								
Cash provided by operating activities (millions)	\$ 747	\$ 986	\$ 461	\$ 625	\$ 818	\$ 832	\$ 1,062	\$ 460
Cash used by investing activities (millions)	(643)	(1,353)	(437)	(1,000)	(472)	(430)	(478)	(392)
Cash provided (used) by financing activities (millions)	(136)	357	(28)	405	(327)	(403)	(1,116)	477
Performance indicators								
Net income (millions)	\$ 285	\$ 285	\$ 267	\$ 291	\$ 400	\$ 410	\$ 253	\$ 195
Dividend payout ¹	54%	47%	43%	44%	47%	46%	50%	45%
Return on common equity ²	15.8%	17.6%	19.6%	19.5%	18.1%	15.8%	14.5%	16.1%
Return on assets ³	14.7%	15.3%	15.1%	18.9%	18.7%	18.4%	17.0%	14.7%
EBITDA interest coverage ratio ⁴	8.3	8.4	9.1	8.8	8.2	7.6	7.1	7.2
Free cash flow (millions) ⁵	\$ 61	\$ (482)	\$ 254	\$ 528	\$ 379	\$ 460	\$ 126	\$ 423
Net debt to EBITDA ratio ⁶	1.9	1.9	1.7	1.8	1.7	1.7	1.8	1.7
Net debt to total capitalization	49.8%	49.9%	48.2%	48.4%	46.5%	46.9%	47.6%	47.2%
Capital expenditures (millions)	\$ 631	\$ 473	\$ 435	\$ 320	\$ 472	\$ 434	\$ 482	\$ 382
Payment for wireless spectrum (millions)	\$ -	\$ 882	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capex intensity ⁷	26%	19%	18%	14%	20%	19%	22%	17%
Capex intensity ⁷ including payment for wireless spectrum	26%	55%	18%	14%	20%	19%	22%	17%
Total customer connections (000s) ⁸	11,595	11,475	11,363	11,208	11,147	11,008	10,885	10,800
Other								
Total salaries and benefits (millions) ⁹	\$ 551	\$ 596	\$ 600	\$ 579	\$ 557	\$ 533	\$ 539	\$ 700

n.m. – not meaningful

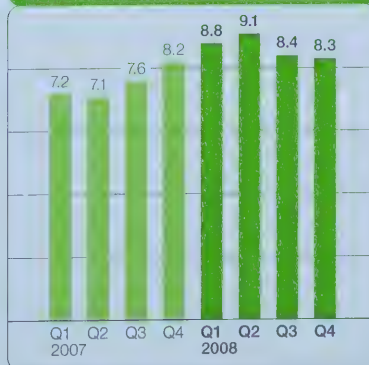
- 1 Last quarterly dividend declared per share, in the respective reporting period, annualized, divided by the sum of Basic earnings per share reported in the most recent four quarters.
- 2 Common share and non-voting share income over the average quarterly common equity for the 12-month period. Quarterly ratios are calculated on a 12-month trailing basis.
- 3 Cash provided by operating activities divided by total assets. Quarterly ratios are based on a 12-month trailing cash flow provided by operating activities.
- 4 EBITDA excluding Restructuring costs, divided by Financing costs before gains on redemption and repayment of debt, calculated on a 12-month trailing basis.
- 5 EBITDA, adding Restructuring costs, net employee defined benefit plans expense, the excess of share compensation expense over share compensation payments and interest received; and deducting restructuring payments, employer contributions to employee defined benefit plans, interest paid, cash income taxes, capital expenditures (including spectrum payments), donations and securitization fees. Note: the definition was refined in 2008 to incorporate defined benefit plans cash contributions instead of accrued net expense (recovery) for accounting purposes.
- 6 Net debt at the end of the period divided by 12-month trailing EBITDA (excluding restructuring).
- 7 Capital expenditures divided by Operating revenues.
- 8 Includes wireless subscribers, network access lines and Internet subscribers, and excludes TELUS TV subscribers.
- 9 Includes net-cash settlement feature expenses in 2007, including \$174 million in the first quarter.
- 10 Excluding employees in TELUS International, total active employees were 28,700, 27,500, 27,100, 26,500 and 25,800, respectively, for 2008, 2007, 2006, 2005 and 2004. In 2008, TELUS acquired Emergis, which added 1,100 employees.
- 11 The measure of FTE employees is not reported for fiscal year 2005, as it does not factor in effective overtime hours on staff equivalents because of the labour disruption.
- 12 EBITDA excluding net-cash settlement feature expense and Restructuring costs, divided by average FTE employees.

Note: Certain comparative information has been restated to conform with the 2008 presentation.

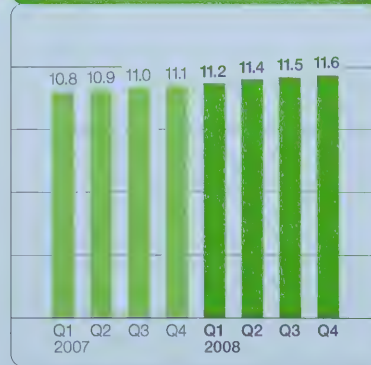
NET INCOME (\$ millions)



EBITDA INTEREST COVERAGE RATIO



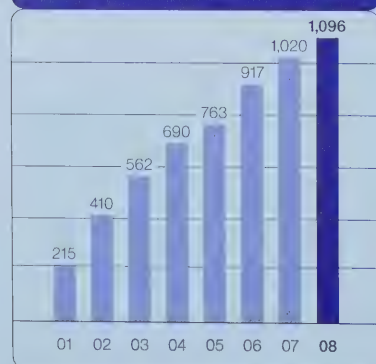
TOTAL CUSTOMER CONNECTIONS (millions)



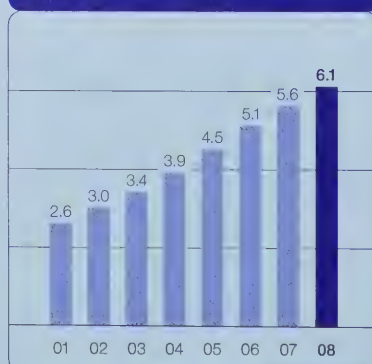
annual segmented statistics

	2008	2007	2006	2005	2004	2003	2002	2001
Wireline segment								
Operating revenues (millions)	\$ 5,152	\$ 4,924	\$ 4,921	\$ 4,938	\$ 4,866	\$ 4,881	\$ 5,085	\$ 5,360
Operations expense (millions) ¹	3,327	3,077	2,997	3,009	2,842	2,829	3,078	3,163
Net-cash settlement feature expense (millions) ²	—	145	—	—	—	—	—	—
Restructuring costs (millions)	51	19	62	54	53	28	564	135
EBITDA (millions)	\$ 1,774	\$ 1,683	\$ 1,862	\$ 1,875	\$ 1,971	\$ 2,024	\$ 1,443	\$ 2,062
Capital expenditures (millions)	\$ 1,311	\$ 1,219	\$ 1,191	\$ 914	\$ 964	\$ 893	\$ 1,238	\$ 1,606
Cash flow (millions) ³	463	609	671	961	1,007	1,131	205	456
Network access lines in service (000s)	4,246	4,404	4,548	4,691	4,808	4,870	4,911	4,967
Net additions (losses) dial-up Internet subscribers (000s)	(31)	(39)	(42)	(46)	(38)	(72)	(63)	42
Dial-up Internet subscribers (000s)	124	155	194	236	282	320	392	455
Net additions high-speed Internet subscribers (000s)	76	103	154	73	128	152	195	131
High-speed Internet subscribers (000s)	1,096	1,020	917	763	690	562	410	215
Total active employees ⁴	28,000	26,100	24,200	22,900	19,500	19,000	20,400	25,500
Full-time equivalent (FTE) employees ⁵	27,700	25,700	23,900	n.m.	18,900	18,400	19,700	—
EBITDA per average FTE employee (000s) ^{5,6}	\$ 68	\$ 74	\$ 85	n.m.	\$ 108	\$ 108	\$ 88	\$ —
Wireless segment								
Operating revenues (millions)	\$ 4,660	\$ 4,291	\$ 3,881	\$ 3,319	\$ 2,833	\$ 2,375	\$ 2,035	\$ 1,826
Operations expense (millions) ¹	2,647	2,360	2,122	1,874	1,689	1,558	1,499	1,469
Net-cash settlement feature expense (millions) ²	—	24	—	—	—	—	—	—
Restructuring costs (millions)	8	1	6	—	—	—	6	63
EBITDA (millions)	\$ 2,005	\$ 1,906	\$ 1,753	\$ 1,445	\$ 1,144	\$ 817	\$ 530	\$ 294
EBITDA ⁷ excluding cost of acquisition (COA) (millions)	\$ 2,579	\$ 2,495	\$ 2,286	\$ 1,939	\$ 1,580	\$ 1,242	\$ 946	\$ 776
Capital expenditures (millions)	548	551	427	405	355	360	455	643
Payment for wireless spectrum (millions)	882	—	—	—	—	—	5	356
Cash flow (millions) ³	1,457	1,379	1,326	1,040	789	457	75	(349)
Cash flow ³ including payment for wireless spectrum (millions)	575	1,379	1,326	1,040	789	457	70	(705)
Net additions wireless subscribers (000s) ⁸	561	515	535	584	512	431	418	418
Gross additions wireless subscribers (000s)	1,655	1,434	1,293	1,279	1,121	987	1,017	985
Wireless subscribers (000s) ⁸	6,129	5,568	5,056	4,521	3,936	3,424	2,996	2,578
Penetration rate ⁹	18.8%	17.5%	16.2%	14.5%	12.9%	11.5%	10.9%	10.5%
Wireless market share, subscriber-based	28%	27%	27%	27%	26%	26%	25%	24%
Average monthly revenue per subscriber unit (ARPU)	\$ 63	\$ 64	\$ 63	\$ 62	\$ 60	\$ 57	\$ 55	\$ 57
Average minutes per subscriber per month (MOU)	411	404	403	399	384	350	290	270
COA, per gross addition	\$ 346	\$ 395	\$ 412	\$ 386	\$ 389	\$ 430	\$ 425	\$ 446
Monthly churn rate ⁹	1.57%	1.45%	1.33%	1.39%	1.40%	1.46%	1.80%	2.04%
Population coverage – digital (millions) ¹⁰	32.6	31.6	31.0	30.6	30.0	29.5	27.4	24.2
Total active employees	8,600	8,100	7,700	6,900	6,300	5,700	5,400	5,200
Full-time equivalent (FTE) employees ⁵	8,200	7,700	7,200	n.m.	5,900	5,400	5,100	4,900
EBITDA per average FTE employee (000s) ^{5,6}	\$ 258	\$ 261	\$ 261	n.m.	\$ 206	\$ 160	\$ 105	\$ —

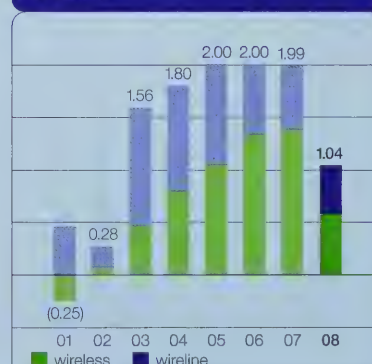
HIGH-SPEED INTERNET SUBSCRIBERS
(000s)



WIRELESS SUBSCRIBERS
(millions)



TOTAL CASH FLOW³ BY SEGMENT
(\$ billions)



quarterly segmented statistics

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Wireline segment								
Operating revenues (millions)	\$ 1,301	\$ 1,281	\$ 1,289	\$ 1,281	\$ 1,250	\$ 1,234	\$ 1,209	\$ 1,231
Operations expense (millions) ¹	824	822	853	828	781	771	773	752
Net-cash settlement feature expense (millions) ²	–	1	(1)	–	2	(10)	–	153
Restructuring costs (millions)	32	9	3	7	6	6	2	5
EBITDA (millions)	\$ 445	\$ 449	\$ 434	\$ 446	\$ 461	\$ 467	\$ 434	\$ 321
Capital expenditures (millions)	\$ 395	\$ 340	\$ 321	\$ 255	\$ 337	\$ 302	\$ 309	\$ 271
Cash flow (millions) ³	50	110	112	191	126	155	125	203
Network access lines in service (000s)	4,246	4,282	4,325	4,365	4,404	4,443	4,478	4,526
Net losses dial-up Internet subscribers (000s)	(10)	(8)	(4)	(9)	(9)	(8)	(9)	(13)
Dial-up Internet subscribers (000s)	124	134	142	146	155	164	172	181
Net additions high-speed Internet subscribers (000s)	19	13	24	20	26	31	14	32
High-speed Internet subscribers (000s)	1,096	1,077	1,064	1,040	1,020	994	963	949
Wireless segment								
Operating revenues (millions)	\$ 1,195	\$ 1,209	\$ 1,149	\$ 1,107	\$ 1,118	\$ 1,112	\$ 1,055	\$ 1,006
Operations expense (millions) ¹	697	683	663	604	627	589	602	542
Net-cash settlement feature expense (millions) ²	–	(1)	1	–	(1)	3	1	21
Restructuring costs (millions)	6	1	1	–	–	–	1	–
EBITDA (millions)	\$ 492	\$ 526	\$ 484	\$ 503	\$ 492	\$ 520	\$ 451	\$ 443
EBITDA ⁷ excluding COA (millions)	\$ 664	\$ 677	\$ 625	\$ 613	\$ 639	\$ 660	\$ 602	\$ 594
Capital expenditures (millions)	236	133	114	65	135	132	173	111
Payment for wireless spectrum (millions)	–	882	–	–	–	–	–	–
Cash flow (millions) ³	256	392	371	438	356	391	279	353
Cash flow ³ including payment for wireless spectrum (millions)	256	(490)	371	438	356	391	279	353
Net additions wireless subscribers (000s) ⁴	148	149	176	88	162	134	128	91
Gross additions wireless subscribers (000s)	441	447	422	345	421	363	354	296
Wireless subscribers (000s) ⁴	6,129	5,981	5,832	5,656	5,568	5,406	5,272	5,144
Penetration rate ⁵	18.8%	18.4%	18.0%	17.7%	17.5%	17.0%	16.7%	16.3%
Wireless market share, subscriber-based	28%	28%	28%	28%	27%	27%	28%	27%
Average monthly revenue per subscriber unit (ARPU)	\$ 62	\$ 64	\$ 63	\$ 62	\$ 64	\$ 65	\$ 64	\$ 62
Average minutes per subscriber per month (MOU)	412	416	420	394	411	410	411	382
COA, per gross addition	\$ 388	\$ 341	\$ 332	\$ 319	\$ 352	\$ 379	\$ 425	\$ 438
Monthly churn rate ⁶	1.62%	1.68%	1.43%	1.53%	1.59%	1.43%	1.45%	1.35%
Population coverage – digital (millions) ¹⁰	32.6	32.4	32.4	31.9	31.6	31.6	31.5	31.0

n.m. – not meaningful

1 Operations expense for 2007 excludes net-cash settlement feature expense.

2 An incremental charge relating to the introduction of a net-cash settlement feature for share option awards granted prior to 2005.

3 EBITDA excluding net-cash settlement feature expense, less capital expenditures.

4 Excluding employees in TELUS International, total wireline active employees were 20,100, 19,400, 19,300, 19,600 and 19,500, respectively, for 2008, 2007, 2006, 2005 and 2004. In 2008, TELUS acquired Emergis, which added 1,100 employees.

5 The measure of FTE employees is not reported for fiscal year 2005, as it does not factor in effective overtime hours on staff equivalents because of the labour disruption.

6 EBITDA excluding net-cash settlement feature expense and Restructuring costs, divided by average FTE employees.

7 EBITDA excluding net-cash settlement feature expense and Restructuring costs.

8 Includes the impact of TELUS' analog network shutdown in Q3 2008, which reduced net additions by 27,635.

9 Wireless subscribers divided by total population coverage.

10 Includes expanded coverage due to roaming/resale agreements, principally with Bell, of approximately 7.5 million PCS POPs.

11 EBITDA excluding net-cash settlement feature expense, less capital expenditures and payment for wireless spectrum.

Note: Certain comparative information has been restated to conform with the 2008 presentation.

caution regarding forward-looking statements

This document and Management's discussion and analysis contain forward-looking statements about expected future events and financial and operating results of TELUS Corporation (TELUS or the Company, and where the context of the narrative permits, or requires, its subsidiaries). By their nature, forward-looking statements require the Company to make assumptions, and forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that assumptions (see *Section 1.5 Financial and operating targets for 2009*), predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, and reserves the right to change, at any time at its sole discretion, its current practice of updating annual targets and guidance. Targets for 2009 and assumptions are described in *Section 1.5*.

Factors that could cause actual results to differ materially include, but are not limited to:

Competition (including more active price competition and the likelihood of new wireless competitors beginning to offer services in late 2009 and into 2010 as a result of the 2008 advanced wireless services (AWS) spectrum auction); economic growth and fluctuations (including the global credit crisis, and pension performance, funding and expenses); capital expenditure levels (increasing in 2009 and potentially in future years due to the Company's fourth generation (4G) wireless deployment strategy and any new Industry Canada wireless spectrum auctions); financing and debt requirements (including ability to carry out refinancing

activities and fund share repurchases); tax matters (including acceleration or deferral of required payments of significant amounts of cash taxes); human resource developments; business integrations and internal reorganizations (including ability to successfully implement cost reduction initiatives); technology (including reliance on systems and information technology, broadband and wireless technology options, choice of suppliers and suppliers' ability to maintain and service their product lines, expected technology and evolution path and transition to 4G technology, expected future benefits and performance of high-speed packet access (HSPA) / long-term evolution (LTE) wireless technology, successful implementation of the network build and sharing arrangement with Bell Canada to achieve cost efficiencies and reduce deployment risks, successful deployment and operation of new wireless networks and successful introduction of new products, services and supporting systems); regulatory approvals and developments (including interpretation and application of tower sharing and roaming rules, the design and impact of future spectrum auctions, the review of new media and Internet traffic management practices, and possible changes to foreign ownership restrictions); process risks (including conversion of legacy systems and billing system integrations, and implementation of large complex deals); health, safety and environmental developments; litigation and legal matters; business continuity events (including manmade and natural threats); any prospective acquisitions or divestitures; and other risk factors discussed herein and listed from time to time in TELUS' reports and public disclosure documents including its annual report, annual information form, and other filings with securities commissions in Canada (on sedar.com) and in its filings in the United States, including Form 40-F (on EDGAR at sec.gov).

For further information, see *Section 10: Risks and risk management* in Management's discussion and analysis.

management's discussion and analysis

February 11, 2009

The following is a discussion of the consolidated financial position and results of operations of TELUS Corporation for the years ended December 31, 2008 and 2007, and should be read together with TELUS' audited Consolidated financial statements. This discussion contains forward-looking information that is qualified by reference to, and should be read together with, the *Caution regarding forward-looking statements* above.

TELUS' Consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), which differ in certain respects from U.S. GAAP. See Note 22 to the Consolidated financial statements for a summary of the principal differences between Canadian and U.S. GAAP as they relate to TELUS. The Consolidated financial statements and Management's discussion and analysis were reviewed by TELUS' Audit Committee and approved by TELUS' Board of Directors. All amounts are in Canadian dollars unless otherwise specified.

TELUS has issued guidance on and reports on certain non-GAAP measures used by management to evaluate performance of business units, segments and the Company. Non-GAAP measures are also used to determine compliance with debt covenants and manage the capital structure. Because non-GAAP measures do not have a standardized meaning, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled with their nearest GAAP measure. For the reader's reference, the definition, calculation and reconciliation of consolidated non-GAAP measures are provided in *Section 11: Reconciliation of non-GAAP measures and definition of key operating indicators*.

management's discussion and analysis – contents

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	A summary of TELUS' consolidated results for 2008, performance against 2008 targets, and presentation of targets for 2009			A discussion of changes in the consolidated statements of financial position for the year ended December 31, 2008	
2	Core business, vision and strategy	21	7	Liquidity and capital resources	39
	A discussion of TELUS' core business, vision and strategy, including examples of TELUS' activities in support of its six strategic imperatives			A discussion of cash flow, liquidity, credit facilities and other disclosures	
3	Key performance drivers	23	8	Critical accounting estimates and accounting policy developments	46
	A report on 2008 corporate priorities and an outline of 2009 priorities			A description of accounting estimates that are critical to determining financial results, and changes to accounting policies	
4	Capabilities	25	9	General outlook	52
	A description of the factors that affect the capability to execute strategies, manage key performance drivers and deliver results			The outlook for the telecommunications business in 2009	
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introduction, performance summary and targets

A summary of TELUS' consolidated results for 2008, performance against 2008 targets, and presentation of targets for 2009

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10: Risks and risk management*.

1.1 Materiality for disclosures

Management determines whether or not information is material based on whether it believes a reasonable investor's decision to buy, sell or hold securities in the Company would likely be influenced or changed if the information were omitted or misstated.

1.2 Canadian economy and telecommunications industry

Economic and telecom industry growth

In early 2009, economic uncertainty related to the tightening of credit markets worldwide remains. The credit situation remains fluid and it is difficult to predict future outcomes. TELUS' capital structure financial policies, which are discussed under *Capabilities – Section 4.3 Liquidity and capital resources*, were designed with credit cycles in mind. The Company believes that these financial policies and guidelines, and maintaining credit ratings in the range of BBB+ to A–, or the equivalent, provide reasonable access to capital markets.

The Government of Canada, in its January 2009 public budget documents, noted there was a broad-based consensus that the Canadian economy entered into recession in the fourth quarter of 2008, and that private sector forecasters expected the recession to last three quarters. The economic weakness and stock market decline that began in 2008 are expected to increase TELUS' net defined benefit pension plans expense and funding in 2009, as reflected in the Company's public targets for 2009. See *Section 1.5 Financial and operating targets for 2009*.

The Company estimates that revenues for the Canadian telecom industry grew by approximately 4.4% in 2008, due to continued wireless growth, which more than offset the declines of a mature wireline segment. TELUS' 2008 revenues increased by 6.4% to \$9.65 billion due to wireless growth and wireline data revenue growth assisted by acquisitions completed in January.

Key industry development

In December 2008, the pending sale of Canada's largest incumbent telecommunications company BCE (Bell Canada) was terminated due to its failure to satisfy a solvency condition. BCE is taking action to attempt to recover a \$1.2 billion deal break fee from the acquiring consortium led by Teachers Private Capital, the private investment arm of the Ontario Teachers' Pension Plan. BCE in mid-2008 had a change in chief executive officer, embarked on a reorganization and efficiency program, and changed its branding. On the collapse of the acquisition, dividend payments were resumed and a modest share repurchase program was announced. Had the proposed acquisition been completed, BCE was expected to be highly levered with debt and extremely focused on maximizing short-term cash flow. With less leverage, BCE is expected to remain a strong competitor to TELUS and other communications companies in Canada.

Wireless developments

TELUS estimates that Canadian wireless revenues grew by 11% in 2008 as market penetration for the industry increased by an estimated 4.6 percentage points to approximately 65% of the population. The expectation for 2009 is an approximate 4.5 percentage point gain in the proportion of the population using wireless services, which are less likely than many other consumer expenditures to be eliminated in an economic downturn.

In 2008, TELUS' wireless segment achieved 9% revenue growth (including 55% data revenue growth) and 10% subscriber growth. The Company's Mike® service has exposure to the transport, construction, automotive and oil and gas sectors, which have been particularly affected by the economic downturn, resulting in a weakening in Mike service average revenue per subscriber unit (ARPU). Overall wireless ARPU decreased by 2% in the fourth quarter and 1% for the full year of 2008 when compared to 2007. The economic downturn is expected to place continued downward pressure on wireless ARPU for the Company's existing subscriber base and new subscriber additions, as well as on voice roaming revenues, as compared to results achievable in non-recessionary times.

As in recent years, a key driver of wireless growth continues to be the increased smartphone adoption and usage of data services such as text messaging and mobile computing. Canadian wireless providers continue the roll-out of faster next generation high-speed wireless networks to capture this growth opportunity. In 2008, TELUS announced its wireless technology evolution strategy toward fourth generation (4G) LTE, including the current joint HSPA network build and expected service launch by early 2010. See *Section 2.2 Vision and strategy – Building national capabilities*.

Competition remains intense due to a number of factors including introduction of TELUS' basic brand and service (Koodo Mobile) in March 2008; the presence of mobile virtual network operators (MVNOs) such as Virgin Mobile and Videotron Ltd.; and discount brand offerings by Bell (Solo) and Rogers (Fido). Wireless number portability, first introduced in March 2007, facilitates customers moving to a different provider while retaining their existing phone number. Competition is expected to increase in future years as a result of new entrants acquiring spectrum in the 2008 advanced wireless services (AWS) spectrum auction.

AWS and other spectrum auction in the 2 GHz range

Industry Canada conducted a wireless spectrum licence auction between May 27 and July 21, 2008 for 90 MHz of AWS spectrum (including 40 MHz set aside for new entrants), 10 MHz for personal communications network (PCS) service extension, and 5 MHz for another small band. The auction concluded after 331 rounds with Industry Canada reporting total proceeds of \$4,255 million (average of \$1.55/MHz/POP for AWS and PCS spectrum, where POP refers to one person in a population area). Proceeds from the auction were up to three times more than original expectations before the auction began.

TELUS was the successful bidder on 59 spectrum licences, providing additional spectrum depth nationally in markets TELUS already covers. Of the 59 licences acquired, 32 were 20 MHz licences

covering geographic areas of Quebec, Southwestern Ontario, Ottawa Region, Manitoba, Saskatchewan, Alberta and B.C., while 27 were 10 MHz licences covering Toronto, Central and Northern Ontario, Yukon, Northwest Territories and Nunavut, Newfoundland and Labrador, Nova Scotia, New Brunswick and P.E.I. The average spectrum acquired in the AWS auction by TELUS was 16.2 MHz at a cost of \$1.82/MHz/POP.

TELUS paid Industry Canada \$882 million for the licences and related auction charges in the third quarter, through a combination of drawing on its credit facilities and utilization of cash on hand. Each of the successful spectrum bidders was required to demonstrate

compliance with Canadian ownership requirements and other licence conditions. TELUS received its ownership compliance decision from Industry Canada in December 2008. For additional discussion, see *Section 2.2 Vision and strategy – Building national capabilities* and *Section 10.3 Regulatory*.

Wireless competition is expected to increase in the future as a result of several entrants acquiring regional spectrum in the AWS spectrum auction, as summarized below. Subject to meeting Industry Canada's eligibility requirements, some entrants are expected to begin offering services in late 2009 and in 2010, as they establish operations and build wireless networks in areas where they have acquired spectrum.

Existing and potential competitors acquiring licences in the 2008 Industry Canada spectrum auction

Competitor	Primary geographic focus
Incumbent national facilities-based competitors	
Rogers Communications Inc.	Expansion of existing national capacity
Bell Mobility Inc. (Bell Canada)	Expansion of existing national capacity
TELUS	Expansion of existing national capacity for future LTE technology deployment
Incumbent provincial facilities-based competitors	
MTS Allstream	Expansion of existing Manitoba capacity
SaskTel	Expansion of existing Saskatchewan capacity
Entrants ⁽¹⁾	
Globalive Wireless LP	Spectrum in most regions, but excluding most of Quebec
Data & Audio-Visual Enterprises	Spectrum in most major centres outside of Saskatchewan, Manitoba, Quebec and Atlantic Canada
BMV Holdings (6934579 Canada Inc.)	Spectrum in Southern and Eastern Ontario and Southern and Eastern Quebec
Québecor Inc. (9193-2962 Québec Inc.)	Regional spectrum in Quebec and parts of Ontario, including Toronto
Shaw Communications Inc.	Regional spectrum in Western Canada and Northern Ontario
Bragg Communications Inc.	Regional spectrum in Atlantic Canada and Southwestern Ontario, as well as Grande Prairie, Alberta
Novus Wireless Inc.	Provincial spectrum in B.C. and Alberta
Blue Canada Wireless Inc.	Provincial spectrum in Nova Scotia and P.E.I.
Others	Three local areas in total

(1) Subject to building a wireless network in the geographic areas where they elect to compete.

Wireline developments

As in 2007, the industry is continuing to focus its attention on broadband services to moderate the losses in network access lines. As penetration in this area approaches a saturation point, telecom and cable-TV companies have started to compete on speed, applications and price to differentiate their product offerings. Internet protocol (IP) telephony has facilitated a growing revenue stream for cable-TV companies. Telecom companies are strategically positioning themselves to encroach into the TV entertainment market with existing satellite TV service and/or new IP TV offerings. Consumers continue to substitute wireless and voice over IP (VoIP) services for traditional wired telephony services. Competitive losses and substitution have resulted in certain North American telecom companies having residential access line losses around 12%. At December 31, 2008, TELUS' estimated wireline share of the local residential telephony market in B.C. and Alberta was 66%. Approximately 12% of households in B.C. and Alberta have only wireless telephone services amongst all providers, including TELUS.

The Company operates its incumbent wireline business in B.C., Alberta and Eastern Quebec, which have been less exposed to the manufacturing downturn in Central Canada, but recently exposed to certain cyclical commodity sectors such as oil and lumber. The Company's national business growth strategy is focused on four vertical markets that do not include manufacturing and TELUS continues to see growth in the public and healthcare sectors in particular.

TELUS' wireline segment external revenues increased 4% in 2008. Growth from wireline data services, including data revenues from two acquisitions, more than offset losses in voice services. While business

network access lines increased by 2% in both 2008 and 2007 from the Company's focus on non-incumbent growth, TELUS' residential access lines decreased by 7.5% in 2008 and 6.5% in 2007, due to continued strong competition particularly from cable telephony and technological substitution.

Building capability in business markets

TELUS' approach to the business market is through growth in Central Canada as well as nationally, with a focus on key vertical markets, including the public sector, healthcare, financial services and energy. In 2008, TELUS advanced its capabilities in the healthcare and financial services sectors with the January 2008 acquisition of Emergis Inc., a business process outsourcer specializing in these areas. TELUS has become a national leader in the provision of advanced data solutions to the healthcare sector. See *Section 2.2 Vision and strategy – Partnering, acquiring and divesting*.

TELUS continues to expand its broad suite of call centre and business process outsourcing services for the benefit of a large roster of Canadian, U.S. and international clients, as well as for internal requirements. These services are reliant on TELUS' growing call centre operations at various locations around the world including the Philippines. More recently, bilingual Spanish and English language capabilities have been expanded by acquiring a minority investment in a company with call centre operations in three Central American countries and soon at a new TELUS call centre being opened in Clark County, Nevada. This geographic expansion and augmented bilingual Spanish-English language support improves the Company's competitive offering for this growing line of business.

1.3 Consolidated highlights

The Chief Executive Officer, who is the chief operating decision-maker, regularly received TELUS' 2008 and 2007 consolidated reports on two bases: including and excluding (labelled as *adjusted*) an incremental charge for introducing a net-cash settlement feature for share option awards granted prior to 2005. The net-cash settlement feature was introduced in the first quarter of 2007. The highlights table below presents the unadjusted and adjusted views.

Consolidated highlights

Years ended December 31
(\$ millions, except per share
amounts, subscribers and ratios)

	2008	2007	Change
Consolidated statements of income			
Operating revenues	9,653	9,074	6.4%
Operating income	2,066	1,974	4.7%
Net-cash settlement feature expense	—	169	(100)%
Operating income (as adjusted)	2,066	2,143	(3.6)%
Income before income taxes	1,567	1,498	4.6%
Net-cash settlement feature expense	—	169	(100)%
Income before income taxes (as adjusted)	1,567	1,667	(6.0)%
Net income	1,128	1,258	(10)%
Net-cash settlement feature expense, after tax	—	105	(100)%
Net income (as adjusted)	1,128	1,363	(17)%
Earnings per share (EPS), basic (\$)	3.52	3.79	(7.1)%
Net-cash settlement feature expense, per share	—	0.32	(100)%
Earnings per share, basic (as adjusted) (\$)	3.52	4.11	(14)%
Earnings per share, diluted (\$)	3.51	3.76	(6.6)%
Cash dividends declared per share (\$)	1.825	1.575	16%
Consolidated statements of cash flows			
Cash provided by operating activities	2,819	3,172	(11)%
Cash used by investing activities	3,433	1,772	94%
Capital expenditures	1,859	1,770	5.0%
Payment for advanced wireless spectrum licences	882	—	n.m.
Acquisitions	696	—	n.m.
Cash provided (used) by financing activities	598	(1,369)	n.m.
Subscribers and other measures			
Subscriber connections (thousands) ⁽¹⁾	11,595	11,147	4.0%
EBITDA ⁽²⁾	3,779	3,589	5.3%
Net-cash settlement feature expense	—	169	(100)%
EBITDA (as adjusted)	3,779	3,758	0.6%
Free cash flow ⁽³⁾	567	1,573	(64)%
Debt and payout ratios⁽⁴⁾			
Net debt to EBITDA –			
excluding restructuring costs	1.9	1.7	0.2
Dividend payout ratio (%) ⁽⁵⁾	56	54	2 pts

n.m. – not meaningful; pts – percentage points

- (1) The sum of wireless subscribers, network access lines and Internet access subscribers measured at the end of the respective periods based on information in billing and other systems. The measure excludes TELUS TV subscriber connections.
- (2) EBITDA is a non-GAAP measure. See Section 11.1 *Earnings before interest, taxes, depreciation and amortization (EBITDA)*.
- (3) Based on defined benefits plans net recovery and including the \$882 million payment for AWS spectrum licences in 2008. See Section 11.2 *Free cash flow*.
- (4) See Section 7.4 *Liquidity and capital resource measures* and Section 11.4 *Definitions of liquidity and capital resource measures*.
- (5) Based on earnings per share excluding favourable tax-related adjustments and net-cash settlement feature expense.

Highlights from operations

- The Company met two of four original consolidated targets, and met three of the four original segmented targets for 2008. See Section 1.4 *Performance scorecard for 2008 results*.
- Subscriber connections reported exclude TELUS TV subscribers. Connections increased by 448,000 during 2008, net of approximately 28,000 subscriber deactivations resulting from turning down the analog wireless network in September. The number of wireless subscribers grew by 10% to 6.13 million, the number of Internet subscribers grew by 3.8% to 1.22 million and the number of network access lines decreased by 3.6% to 4.25 million. Excluding the analog wireless subscriber deactivations, subscriber connections increased by approximately 476,000.
- The Company's wireless gross subscriber additions for 2008 set TELUS fourth quarter and full year records, and were positively influenced by the introduction of the new postpaid basic service and brand Koodo Mobile in March 2008. Wireless ARPU was \$62.73 in 2008, down 1% from 2007, reflecting price competition in voice services, offset by strong data ARPU growth.
- Operating revenues increased by \$579 million in 2008 when compared to 2007, due primarily to growth in wireless network revenues and wireline data revenues, which more than offset revenue declines in wireline voice local and long distance. Growth in wireline data revenues included revenues from two acquisitions, Emergis Inc. and, to a much lesser extent, Fastvibe, completed in January 2008.
- Operating income adjusted to exclude the net-cash settlement feature decreased by \$77 million in 2008, when compared to 2007. The decrease was primarily due to additional software amortization from the January acquisition of Emergis and implementation of a new phase of the converged wireline billing and client care platform in July 2008, as well as a 2.1% increase in depreciation, partially offset by slightly higher EBITDA (as adjusted). EBITDA (as adjusted) increased by \$21 million for the full year when compared to 2007, as increased data revenues were partly offset by costs supporting the growth, including costs of acquisition supporting strong wireless subscriber additions and upfront implementation costs for new wireline enterprise customers.
- Income before income taxes (as adjusted) decreased by \$100 million in 2008 when compared to 2007. The decrease was due to lower operating income (as adjusted) and higher net financing costs. Net financing costs include increased interest expenses mainly from debt added in 2008 to help fund acquisitions in January and payment for AWS spectrum licences in the third quarter. Net financing costs also include interest income, which decreased significantly in 2008, due to lower amounts of interest on tax refunds and cash and temporary investments.
- Net income decreased by \$130 million or 27 cents per share (basic) in 2008 when compared to 2007. The decrease included lower net income tax recoveries and related interest of \$208 million (63 cents per share). Net income before income tax-related adjustments increased by \$78 million or 36 cents per share. Average shares outstanding in 2008 were 3.4% lower than in 2007, due to market repurchases under normal course issuer bid (NCIB) programs.

Net income changes

Years ended December 31
(\$ millions)

Net income in 2007	1,258
Deduct favourable income tax-related adjustments in 2007 (see Section 5.2)	(257)
	1,001
Tax-effected changes:	
Lower net-cash settlement feature expense	105
Higher EBITDA as adjusted ⁽¹⁾	14
Higher depreciation and amortization ⁽¹⁾ , excluding investment tax credits	(69)
Interest expenses ⁽¹⁾	2
Other	26
	1,079
Favourable income tax-related adjustments in 2008 (see Section 5.2)	49
Net income in 2008	1,128

(1) For the purposes of this presentation, the 2008 blended statutory tax rate was used.

Highlights – liquidity and capital resources

- At December 31, 2008, TELUS had unutilized credit facilities of \$1.15 billion, as well as unutilized availability under its accounts receivable securitization program, consistent with its objective of generally maintaining more than \$1 billion of unutilized liquidity. In addition, the Company continues to meet the two other key guidelines. Net debt to EBITDA at December 31, 2008 was 1.9 times, within the Company's long-term target policy range of 1.5 to 2.0 times. The dividend payout ratio, based on the annualized fourth quarter dividend and earnings for 2008 (excluding favourable income tax-related adjustments), was 56%, slightly above the Company's prospective guideline of 45% to 55% of sustainable net earnings. In December, the Company renewed its \$700 million, 364-day credit facility with a syndicate of Canadian banks, extending the term to March 1, 2010.
- The Company renewed its NCIB program for another year. Under Program 5, which will expire on December 23, 2009, the maximum number of TELUS shares that may be purchased is eight million, or 2.5% of the shares outstanding at December 31, 2008. See Section 7.3 *Cash used by financing activities*.
- Cash provided by operating activities decreased by \$353 million in 2008 when compared to 2007, primarily due to lower recoveries of income taxes and related interest. In addition, proceeds from securitized accounts receivable were reduced by \$200 million in 2008 (as compared to no change for 2007).
- Cash used by investing activities increased by \$1,661 million in 2008 when compared to 2007, due to payment of \$882 million for AWS licences, the January 2008 acquisition of Emergis for \$692 million (net of acquired cash) and higher capital expenditures. The increase in capital expenditures in 2008 was directed to investments supporting high bandwidth services for business and residential customers, the next generation wireless HSPA network, healthcare and financial services solutions and upfront expenditures to support new enterprise customers.

- Net cash provided by financing activities was \$598 million in 2008. This compares to net cash used by financing activities of \$1,369 million in 2007. Net cash provided by financing activities in 2008 included higher utilization of the 2012 bank facility and the April 2008 issue of \$500 million Notes maturing in 2015, partly offset by a reduction in issued commercial paper, which helped support payment of \$882 million for AWS spectrum licences in the third quarter and \$692 million for January acquisitions, net of acquired cash. In addition, fewer shares were repurchased under NCIB programs and the dividend for the fourth quarter of 2008 was remitted on the January 2, 2009 payment date (while the dividend for the fourth quarter of 2007 was remitted on December 31, 2007 for the January 1, 2008 payment date). Net cash used by financing activities in 2007 included the June repayment of \$1.5 billion of matured Notes.
- The dividend declared in the fourth quarter of 2008 increased by 5.6% to 47.5 cents per Common Share and Non-Voting Share, up from 45 cents per share declared in each of the four preceding quarters. This is the fifth consecutive annual increase in the quarterly dividend rate.
- Free cash flow decreased by \$1,006 million in 2008 when compared to 2007, due mainly to the \$882 million payment for AWS spectrum licences in 2008 and increased capital expenditures, as well as receipt of larger income tax recoveries and related interest in 2007. Financing activities in 2008 supplemented free cash flow to help fund January acquisitions and the purchase of AWS spectrum licences.

1.4 Performance scorecard

Five of the eight original consolidated and segmented targets for 2008 were met, while three were not achieved. Targets for consolidated revenue, wireline revenue and EBITDA, and wireless revenue were achieved. Consolidated and wireless EBITDA fell below their respective target ranges due to several factors, including lower wireless ARPU, higher subscriber acquisition and retention expenses and costs associated with data growth. Earnings per share fell within the target range only as a result of favourable income tax recoveries; hence, the 2008 EPS target was not achieved. The consolidated capital expenditures target was achieved with actual expenditures 2% below the \$1.9 billion target.

During the year, management provided revised annual 2008 guidance and assumptions when the results for the second and third quarters were announced. Annual guidance revisions for 2008 were also provided for revenues and capital expenditures in the 2009 targets news release and investor call on December 16, 2008. Actual results met the eight metrics from the final guidance, except for capital expenditures.

In the following scorecard, TELUS' results for 2008 are compared to its original targets. Targets for 2009 are also presented and are fully qualified by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis and Section 10: *Risks and risk management*. Additional information on expectations and assumptions for 2009 may be found in Section 1.5 *Financial and operating targets for 2009*, Section 1.6 *TELUS segments at a glance* and Section 9: *General outlook*.

Scorecards	Performance for 2008				2009 targets	
	Actual results	Change from 2007	Original 2008 targets	Target result	Targets	Change from 2008 actual results
Consolidated						
Revenues	\$9.653 billion	6.4%	\$9.6 to \$9.8 billion	✓	\$10.025 to \$10.275 billion	4 to 6%
EBITDA ⁽¹⁾⁽²⁾	\$3.779 billion	0.6%	\$3.8 to \$3.95 billion	✗	\$3.75 to \$3.9 billion	(1) to 3%
EPS – basic ⁽³⁾	\$3.52	(14)%	\$3.50 to \$3.80	–	\$3.40 to \$3.70	(3) to 5%
EPS – basic ⁽³⁾ (excluding income tax-related adjustments) ⁽⁴⁾	\$3.37	1.2%	\$3.50 to \$3.80	✗	\$3.40 to \$3.70	1 to 10%
Capital expenditures (excluding expenditures for AWS spectrum licences in 2008) ⁽⁵⁾	\$1.859 billion	5.0%	Approx. \$1.9 billion	✓	Approx. \$2.05 billion	10%
Wireline segment						
Revenue (external)	\$5.021 billion	4.4%	\$4.975 to \$5.075 billion	✓	\$5.05 to \$5.175 billion	0 to 3%
EBITDA ⁽²⁾	\$1.774 billion	(3.0)%	\$1.725 to \$1.8 billion	✓	\$1.65 to \$1.725 billion	(3) to (7)%
Wireless segment						
Revenue (external)	\$4.632 billion	8.6%	\$4.625 to \$4.725 billion	✓	\$4.975 to \$5.1 billion	7 to 10%
EBITDA ⁽²⁾	\$2.005 billion	3.9%	\$2.075 to \$2.15 billion	✗	\$2.1 to \$2.175 billion	5 to 8%

(1) See Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA) for the definition.

(2) For comparative purposes, EBITDA for 2007 was adjusted to exclude an incremental pre-tax charge that related to the introduction of a net-cash settlement feature for share option awards granted prior to 2005. Of the \$169 million charge, approximately \$145 million was recorded in wireline and \$24 million was recorded in wireless.

(3) For comparative purposes, basic EPS for 2007 was adjusted to exclude an incremental after-tax charge of \$0.32 per share for the introduction of a net-cash settlement feature.

(4) A non-GAAP measure.

(5) The target for 2008 capital expenditures was set excluding expenditures in the AWS spectrum auction held from May to July 2008.

✓ Met target
✗ Missed target

The following key assumptions were made at the time the 2008 targets were announced in December 2007.

Assumptions for 2008 targets	Actual or estimated result for 2008
Canadian real GDP growth estimate of 2.8% and above average growth in the provinces of Alberta and B.C.	Growing economic uncertainty in 2008 resulted in the Conference Board of Canada, Canadian banks and others reducing forecasts several times. Real GDP growth rates for 2008 are estimated to be less than one per cent for Canada with above average growth for B.C. and Alberta. These estimates were aggregated from recent reports from the Bank of Canada and several Canadian banks
Canadian dollar at or near parity with the U.S. dollar	The Canadian dollar closed at U.S. \$0.821 on December 31, 2008, after averaging U.S. \$0.94 for the full year, based on daily closing rates. Influenced by declining commodity prices and growing economic uncertainty, the Canadian dollar averaged U.S. \$0.825 in the fourth quarter of 2008, down from an average U.S. \$0.98 for the first nine months. (Source: the Bank of Canada.) TELUS maintained its position of fully hedging foreign exchange exposure for the 8.00% U.S. dollar Notes due 2011. The Company's foreign exchange risk management also includes the use of foreign currency forward contracts and currency options to fix the exchange rates on short-term U.S. dollar transactions and commitments
Increased wireline competition in both business and consumer markets, particularly from cable-TV and VoIP companies	Confirmed by: (i) a western cable-TV competitor reporting strong high-speed Internet and telephone net additions and expansion of its product offerings to appeal to a wider consumer and small and medium-sized business base in more locations; and (ii) TELUS' network access line losses of 3.6% in 2008
The impact of the acquisition of Emergis to begin in March 2008	The transaction closed in mid-January 2008 and had only a minor impact on TELUS' 2008 targets
Canadian wireless industry market penetration gain of 4.5 to five percentage points for the year	Wireless market penetration gain of 4.6%, down slightly as compared to 2007
Capital expenditures target set excluding potential purchases of wireless spectrum in the AWS spectrum auction	Actual results were as noted above. Payments of \$882 million for AWS spectrum licences were recorded in the third quarter
No new wireless competitive entrant assumed for 2008	Correct assumption. Eight regional competitive entrants acquired spectrum licences in the AWS auction concluded July 2008, but it is expected that entrants are not likely to offer services until late 2009 or 2010
Restructuring expenses of approximately \$50 million including the integration of Emergis	Actual result of \$59 million for the full year supported efforts aimed at improving cost structures and enhancing efficiency that gained traction towards the end of the year
A blended statutory income tax rate of 31 to 32%	The blended statutory rate was 31% as a result of enacted British Columbia tax rate changes
A discount rate of 5.5% (50 basis points higher than 2007) and expected long-term return of 7.25% for pension accounting (unchanged from 2007)	Pension accounting assumptions are set at the beginning of the year. See Section 1.5 for the 2009 assumptions
Average shares outstanding of approximately 320 million	Average shares outstanding for 2008 were 320 million, 3.4% lower than in 2007

1.5 Financial and operating targets for 2009

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, as well as *Section 10: Risks and risk management*. The following assumptions apply to TELUS' 2009 targets shown in the table in the previous section. The 2009 targets and assumptions were originally announced on December 16, 2008.

For 2009, TELUS is targeting 4 to 6% consolidated revenue growth, an increase of \$372 to \$622 million. EBITDA growth is expected to be in a range of up to 3%, moderated by an increased pension expense in 2009 due to equity market weakness in 2008. Restructuring costs in 2009 have been estimated between \$50 million and \$75 million. EPS is targeted to be \$3.40 to \$3.70, similar to 2008, which was positively impacted by income tax adjustments. Excluding positive 2008 tax adjustments, 2009 EPS is targeted to increase by up to 10%.

Wireless revenues are forecast to increase by 7 to 10% in 2009 due to continued growth in subscribers, increased smartphone adoption and increased wireless data service adoption and usage. Wireless EBITDA is expected to increase by 5 to 8% in 2009.

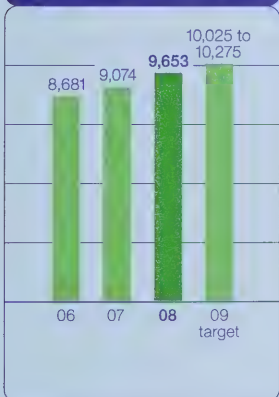
Wireline revenue is expected to increase by up to 3% in 2009, driven by data growth. Wireline EBITDA is expected to decrease by 3 to 7% as a result of increased pension expenses, upfront expenses associated with growth services (including early phase implementation costs for large business contracts), and expected increased restructuring charges, offset in part by results from ongoing efficiency initiatives.

TELUS expects its 2009 EPS to be impacted by slightly increased depreciation and amortization expenses, and higher financing costs. The expected increase in financing costs is caused by a higher average debt level from the payment for AWS spectrum licences in the third quarter of 2008.

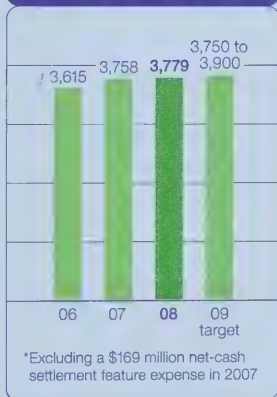
Capital expenditures in 2009 are forecast to be approximately \$2.05 billion, in part due to deferral of some expenditures from 2008. The higher level of capital expenditures in 2009 also reflects significant investment in TELUS' shared national next generation wireless network build, investments in network infrastructure to improve wireline broadband capabilities, and the development of new applications. In addition, this spending will support the capital required to implement new large enterprise contracts in Ontario and Quebec that are expected to generate significant revenues in future years.

TELUS has reaffirmed its long-term financial policy guidelines, including Net debt to EBITDA of 1.5 to 2.0 times, and a dividend payout ratio guideline of 45 to 55% of sustainable net earnings. The 2009 targets align with these guidelines. EPS, cash balances, net debt and common equity may be affected by the purchase of up to eight million TELUS shares under the Company's NCIB program.

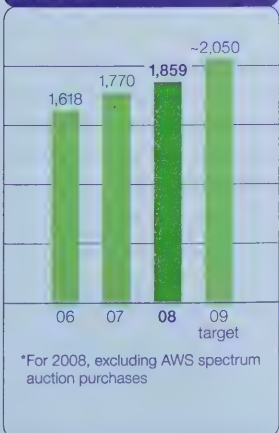
CONSOLIDATED REVENUE (\$ millions)



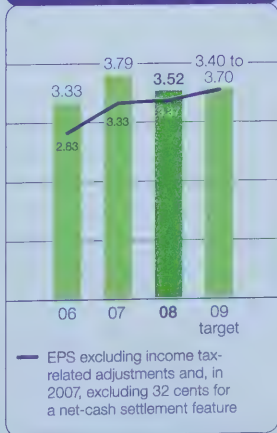
CONSOLIDATED EBITDA* (\$ millions)



CONSOLIDATED CAPITAL EXPENDITURES* (\$ millions)



EARNINGS PER SHARE (\$)



Assumptions for 2009 targets

Ongoing wireline competition in both business and consumer markets, particularly from cable-TV and VoIP companies

Canadian wireless industry market penetration gain of approximately 4.5 percentage points for the year, similar to 2008

Downward pressure on wireless ARPU

New competitive wireless entry beginning in the fourth quarter of 2009 with most entrants starting in 2010

Restructuring expenses of approximately \$50 million to \$75 million (\$59 million in 2008)

A blended statutory tax rate of approximately 30 to 31% (31% in 2008)

Net income tax payments of approximately \$320 to \$350 million (\$10 million in 2008)

Forecast average exchange rate of U.S. \$0.80 per Canadian dollar (U.S. \$0.94 in 2008)

A pension accounting discount rate estimated at 7.00% (subsequently set at 7.25%) and expected long-term return of 7.25% (unchanged from 2008, and consistent with the Company's long-run returns and its future expectations). Defined benefit pension plans net expenses and funding were both estimated to increase in 2009, mainly due to the decline in value of defined benefit pension plans assets in 2008.

- Defined benefit pension plans net expenses were estimated to be \$nil in 2009, subsequently revised to approximately \$18 million (compared to a \$100 million recovery in 2008)
- Defined benefit pension plans contributions were estimated to be approximately \$200 million in 2009, subsequently revised to \$211 million (\$102 million in 2008).

1.6 TELUS segments at a glance

The Company has two reportable segments: wireline and wireless. Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, the distribution channels used and regulatory treatment. Intersegment sales are recorded at the exchange value. Segmented information is regularly reported to the Company's Chief Executive Officer (the chief operating decision-maker). Segmented disclosure is reported in Note 6 of the Consolidated financial statements.

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, as well as *Section 10: Risks and risk management*.

Wireline segment

Offers the following solutions:

Voice – reliable phone service with long distance and call management services such as Voice Mail, Call Display and Call Waiting, and the sale, rental and maintenance of telephone equipment;

Internet – secure high-speed or dial-up access with a comprehensive suite of security and entertainment services;

TELUS TV – flexible digital entertainment service with high-definition TV, personal video recorder (PVR), Video on Demand and Pay Per View services;

Data – IP networks, private line, switched services, network wholesale, network management and hosting;

Converged voice and data solutions – integrated and hosted IP telephony solutions through TELUS IP-One® business services;

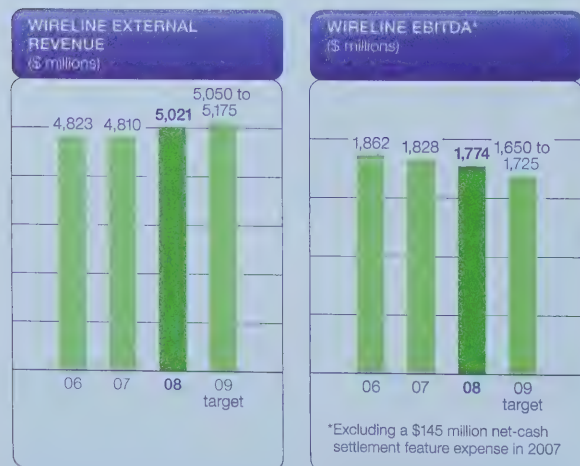
Hosting and infrastructure – managed information technology and infrastructure solutions delivered through TELUS' IP networks and connected to the Company's Internet data centres;

Security solutions – managed and non-managed solutions to protect business networks, messaging and data, in addition to security consulting services; and

Customized solutions – global multi-language contact centre solutions including CallCentreAnywhere, remote agent solutions with TELUS AgentAnywhere®, interactive voice response (IVR) and speech recognition services, conferencing and collaboration services, and performance optimization, human resource and health and safety outsourcing solutions.

Wireline segment 2009 targets

See *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis.



Wireless segment

Offers the following solutions:

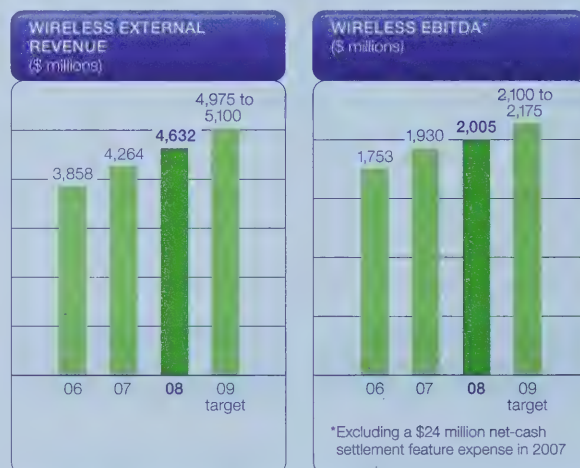
Digital voice – PCS (postpaid and Pay & Talk® prepaid) and Mike all-in-one (iDEN); Push to Talk™ capability on both Mike (Direct Connect®) and PCS (Instant Talk®);

Internet and data services – SPARK™ services including TELUS Mobile TV®, TELUS Mobile Radio®, TELUS Mobile Music®, web browsing, Windows Live Messenger, social networking, text and picture messaging, and downloadable games, videos, ringtones and images; and

Data devices – including smartphones and wireless connect cards available for use on wireless high-speed and Mike packet data networks.

Wireless segment 2009 targets

See *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis.



core business, vision and strategy

A discussion of TELUS' core business, vision and strategy, including examples of TELUS' activities in support of its six strategic imperatives

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10: Risks and risk management*.

2.1 Core business

TELUS Corporation is one of Canada's largest telecommunications companies, providing a full range of telecommunications products and services. The Company is the largest incumbent telecommunications provider in Western Canada and also provides data, IP, voice and wireless services to Central and Eastern Canada. TELUS earns the majority of its revenue from access to, and the use of, the Company's telecommunications infrastructure, or from providing products and services that facilitate access to and usage of this infrastructure.

At December 31, 2008, the Company's principal subsidiary was wholly owned TELUS Communications Inc. (TCI).

2.2 Vision and strategy

TELUS' strategic intent, or vision, is to unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move. TELUS' strategy for growth is to focus on its core telecommunications business in Canada.

For nine years, TELUS has focused consistently on six strategic imperatives that management believes to be as relevant in 2009 as when the imperatives were developed in 2000. The six imperatives guide the Company's actions and contribute to the achievement of its financial goals. Despite intense competition, evolving technology, and changing regulatory and competitive environments, TELUS has generated good operational results and has continued to advance its national growth strategy, as highlighted below.

Building national capabilities across data, IP, voice and wireless

In July 2008, TELUS successfully concluded bids on 59 licences of advanced wireless services (AWS) spectrum in the 1700 MHz / 2100 MHz ranges in the Industry Canada auction. The average licensed spectrum acquired by TELUS was 16.2 MHz nationally, which increases TELUS' strong spectrum position, and is expected to provide capacity for the introduction of future fourth generation (4G) service offerings.

In September, the Company turned down its first generation analog wireless network, deployed in the mid-1980s. This network had reached the end of its useful service life and only 27,600 customers were still using it. TELUS included the deactivations of analog subscribers in its net subscriber additions and in the calculation of its wireless churn rate. Competitors may have reported such deactivations differently. TELUS began notifying customers of the network turn-down about one year earlier and offered options of free digital phones and higher-powered long-range phones at below-cost prices. The deactivation of this network frees up more spectrum for digital capacity and allows the Company to focus on improvements in the current third generation (3G) network and prepare for future 4G services.

In October, TELUS announced it had chosen long-term evolution (LTE) as the technology path for its 4G wireless broadband network, and as an interim step, the Company was immediately launching a national build of a next generation wireless service to be launched commercially by early 2010, based on the latest version of high-speed packet access

(HSPA) technology using existing 1900 MHz and 850 MHz spectrum. The HSPA service is expected to augment TELUS' existing wireless service portfolio and position the Company for an optimal future transition to LTE. TELUS' existing portfolio of wireless services includes CDMA (code division multiple access) providing access to 3G high-speed data services (EVDO), and iDEN-based Mike service, the Company's Push To Talk network and business service. LTE is an emerging worldwide 4G technology that has gained support from many of the world's largest carriers and manufacturers, but it is not expected to be available commercially for a number of years. The benefits of the investment in HSPA are expected to include increased international roaming for existing TELUS customers, access to increased global roaming revenues for TELUS, faster network speeds, lower handset costs due to the larger HSPA device ecosystem, and lower network development and ongoing operating costs. TELUS plans to support its CDMA and iDEN (Mike service) customers for the foreseeable future.

After a comprehensive review process, the Company selected two suppliers, Nokia Siemens Networks and Huawei Technologies, for TELUS' next generation wireless network. TELUS also announced it has entered into an HSPA network sharing agreement with Bell Canada using existing 1900 MHz and 850 MHz spectrum. This agreement builds on and enhances an agreement signed in 2001 and is expected to enable TELUS to lower the cost, accelerate deployment of next generation wireless voice and data services on a national basis, optimize cell-site utilization, and maximize potential operating efficiencies. Initial capital expenditures for the new network were included in TELUS' original capital expenditure guidance for 2008 and are included in the 2009 targets. See *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis and risks described in *Section 10.2 Technology*. TELUS' HSPA and LTE evolution strategy is also consistent with the objectives of focusing on the growth markets of data, IP and wireless, and partnering to accelerate TELUS' strategy.

Focusing relentlessly on the growth markets of data, IP and wireless

In February, the City of Montreal selected TELUS to provide and manage IP-based voice and data services for the city's more than 300 administrative offices. TELUS' advanced telecommunications framework supports the city's goals of accessing a cost-effective infrastructure, while providing a secure IP backbone for new services and solutions. The total value of the 10-year contract is approximately \$87 million.

Also in February, TELUS completed the roll-out of wireless high-speed capability in B.C. and Alberta, using EVDO Rev A technology. TELUS' wireless high-speed service reaches about 95% of the population of B.C. and Alberta, providing typical download speeds of 450 to 800 Kbps and typical upload speeds of 300 to 400 Kbps.

In March, TELUS' wireless postpaid Koodo® brand and service was launched to better address segments of the wireless market and complement the fully featured TELUS brand service. The expected benefits of this basic brand include more flexibility in serving various market segments, increasing postpaid customer additions, protecting revenue on the premium TELUS brand, and improving client retention programs.

During the year, the Company continued to invest in increasing the speed and coverage of its broadband infrastructure in B.C., Alberta and Eastern Quebec, while continuing to increase its high-speed subscriber base. TELUS TV service was launched in several Quebec communities and moved to mass marketing in Calgary and Edmonton, with the inclusion of high-definition (HD) capabilities and, late in the year, personal video recorders (PVR).

In December, the Company was selected by the Government of Quebec, through a competitive bid process, to deliver and manage the province's next generation data network, the Réseau intégré de télécommunications multimédias. The contract is for a term of seven to 10 years and worth up to \$900 million, the largest contract in TELUS' history. The new network is expected to meet the current and future needs of the government's new electronic health initiative and online services, providing connections to 160 ministries and agencies, as well as 350 health institutions province-wide.

Providing integrated solutions that differentiate TELUS from its competitors

In March, the Company launched the TELUS Visual Voice Mail service that provides a voice mail-to-text function and, for the first time in Canada, a voice mail-to-e-mail function. With this service, TELUS' wireless customers can access their phone messages wherever they can access e-mail using smartphones, such as personal digital assistants (PDAs) and BlackBerry devices, or computers. The customer can respond easily to the messages or e-mails, either by voice or by text, at the touch of a button and optionally include an audio recording of the message as an attachment.

In June, the Company launched three new global positioning system (GPS) solutions for businesses with mobile workers, such as those in the energy sector. TELUS Asset Tracker enables businesses to keep track of their assets, whether large or small. TELUS Resource Tracker allows businesses to increase safety and productivity through real-time location monitoring of workers. TELUS Track and Dispatch gives businesses the ability to determine the closest mobile worker to a new job assignment or to immediately dispatch help if a worker needs assistance. These new solutions are part of the Company's suite of wireless GPS solutions on the PCS network that also features TELUS Fleet Tracker, a fleet monitoring and tracking solution, and TELUS Navigator, a GPS turn-by-turn navigation solution.

Partnering, acquiring and divesting to accelerate the implementation of TELUS' strategy and focus TELUS' resources on core business

TELUS completed the acquisition of Emergis in January 2008, having financed and paid \$743 million for all of the then issued and outstanding Emergis common shares by drawing down TELUS' syndicated bank credit facility and utilizing available cash resources, primarily proceeds from commercial paper issuance. In January, TELUS also made a small acquisition of privately held Fastvibe, a provider of web-streaming solutions for business to strengthen the Company's technology solutions portfolio.

Emergis is a business process outsourcer that specializes in the healthcare and financial services sectors. TELUS has targeted and invested in serving the healthcare and financial business sectors. Emergis' complementary expertise, applications and customer base are expected to strengthen TELUS' existing industry solutions and allow it to better compete in the fast-growing and transforming healthcare industry. This acquisition is consistent with three of TELUS' strategic imperatives: building national capabilities; focusing relentlessly on the

growth markets of data, IP and wireless; and partnering, acquiring and divesting.

TELUS Ventures received a \$6 million gain from its 2001 minority investment in Hostopia, a provider of private-branded web hosting, e-mail and e-commerce solutions to telecommunications and cable-TV companies, Internet service providers, domain registrars, and other web service providers. Deluxe Corporation's all-cash offer for Hostopia closed in early August. TELUS Ventures invested in Hostopia to complement TELUS' existing services, as part of TELUS' strategy to benefit from emerging technologies that fill the Company's capability gaps.

Going to the market as one team under a common brand, executing a single strategy

On completion of Emergis and Fastvibe acquisitions, TELUS immediately began implementing post-merger integration plans to ensure a seamless transition for team members and customers, while ensuring a continued focus on achieving the business goals of the transactions. Consistent with TELUS' standard process for acquisitions, Emergis and Fastvibe team members were welcomed at multiple city in-person events and videoconferences. Customers were provided with notice of the transactions, together with the strategic rationale, while sales specialist teams from TELUS and the acquired businesses met to learn about one another's products and services with a focus on cross-selling complementary solutions. Emergis was quickly re-branded as Emergis, a TELUS company, and Fastvibe commenced operating under the TELUS brand.

The post-merger integration process included the identification of top joint-sales opportunities and working together to close multimillions of dollars of new contracts. The teams also initiated an update to the three-year strategic business plans for healthcare and financial services. In addition, certain business functions were aligned, including Finance, Human Resources and Marketing. In November, the Company launched TELUS Health Solutions, Backed by Emergis, and made a commitment to invest \$100 million over three years in the healthcare sector.

Investing in internal capabilities to build a high-performance culture and efficient operations

In July, following a large pilot implementation for 150,000 residential customers in British Columbia, TELUS successfully converted more than one million B.C. wireline residential subscribers to a new billing and client care platform. This platform is converged with the one in Alberta, and for the first time most residential subscribers in Alberta and B.C. are on the same billing and client care platform. During the B.C. conversion, TELUS applied learnings from the Alberta conversion in 2007 and the B.C. implementation was successful. The critical billing function performed as expected and billing cycles were maintained. The order entry system also performed well without capacity and stability issues experienced initially with the Alberta conversion. Service levels have not been materially impacted following the 2008 conversion. The expected customer service and cost benefits of this project include streamlined and standardized processes and the elimination over time of multiple legacy information systems.

In September, a new collective agreement with the members of the Syndicat des agents de maîtrise de TELUS (SAMT) was ratified, and will remain in effect until December 31, 2011. The SAMT agreement covers more than 500 professional and supervisory team members employed in Quebec. TELUS currently employs approximately 5,000 team members in the province.

The Company embarked on a number of operational efficiency initiatives, as described further in *Section 3*.

In October, TELUS and the Government of Quebec announced a training program and the creation of 149 jobs in the Company's technical support team located in the province. More than \$1.6 million will be invested in this value-added training program, of which \$405,000 is from Emploi-Québec. As TELUS' wireless service customers increasingly adopt smartphones with diverse functions, they call more frequently for technical assistance. The new training program will provide advanced skills to technicians who provide support to TELUS customers across Canada.

TELUS continues to focus on engaging its team members (up five points in the 2008 fall Pulsecheck survey) and creating a culture of high performance and appreciation based on shared values and continuous learning. Initiatives included launching Career Alert, which provides team members with an enhanced career planning and progression tool to explore internal career opportunities; providing access to online learning courses, literature and mentoring opportunities; enhancing TELUS' performance development program; introducing Bravo, an upgraded team member recognition and rewards program; and expanding TELUS' Healthy Living program to support the well-being and safety of team members.



key performance drivers

A report on 2008 corporate priorities and an outline of 2009 priorities

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis. It is also qualified by *Section 10: Risks and risk management*.

Management confirms or sets corporate priorities each year to advance TELUS' strategy, focusing on the near-term opportunities and challenges to create value for shareholders.

Corporate priorities

2007

Advancing TELUS' position in the consumer, business and wholesale markets

Driving TELUS' technology evolution and improvements in productivity and service excellence

Strengthening the spirit of the TELUS team and brand, and developing the best talent in the global communications industry.



2008 (see Progress, following)

Drive profit from strategic services with a focus on data

Build scale in vertical markets and leverage the Emergis acquisition

Exact productivity gains from efficiency improvement initiatives

Elevate the client experience and build enhanced loyalty

Execute technology initiatives, including broadband and IT platforms.



2009

Execute on TELUS' broadband strategy, leveraging investments in leading wireline and wireless networks to deliver winning solutions for customers

Increase the efficiency of operations to improve TELUS' cost structure and economic performance

Outpace the competition and earn the patronage of clients through an engaged TELUS team.

Corporate priorities for 2008 – Progress

Drive profit from strategic services with a focus on data

- Growth in wireless included record TELUS gross subscriber loading and very strong 55% wireless data revenue growth
- TELUS saw strong smartphone adoption in 2008, with the launch of a wide selection of PCS devices backed by innovative marketing campaigns. Devices included the Pink BlackBerry Pearl 8130, Curve 8330 and new touchscreen BlackBerry Storm; Samsung Instinct; LG KEYBO, LG Dare, LG Voyager and LG Venus; and HTC Touch Diamond
- Starting at mid-year, wireless margins were negatively impacted by the low \$199 price point introduced on the Apple iPhone by a competitor, which increased device discounts for all smartphones in Canada that have a typical cost of \$500 to \$600. In addition, the late delivery of the BlackBerry Storm largely missed the Christmas sales season and reduced the effectiveness of associated advertising
- Wireline data growth was 17% due largely to the strategic acquisition of Emergis (see below).

Build scale in vertical markets and leverage the Emergis acquisition

- The Company continued to implement large complex deals in the public sector, including contracts with the Government of Ontario, Department of National Defence and City of Montreal, plus several corporate deals in other industry vertical markets
- While TELUS continues to win contracts based on the excellence of its implementation track record, not all implementations go smoothly given the scale, complexity of the IT solutions and reliance on third parties. The Company has addressed the issue by consolidating three business units into two, refocused on project process planning and risk mitigation, and conducting reviews to identify learnings for other project implementations
- Late in year, won a seven-to-10-year contract, worth up to \$900 million, with the Government of Quebec for a managed data network to serve 160 offices and 350 health institutions across the province
- TELUS' capability in the healthcare and financial vertical markets increased with the acquisition and successful integration of Emergis. Emergis' service portfolio and eastern presence provided a good geographical and service fit with TELUS' existing services in the West, as described more fully in *Section 2*
- TELUS Health Solutions was launched, including a \$100 million investment over three years, demonstrating commitment to this important growth area
- TELUS was named 2008 Health Company of the Year by the Information Technology Association of Canada.

Corporate priorities for 2008 – Progress

Exact productivity gains from efficiency improvement initiatives

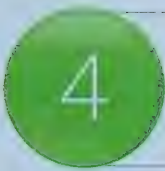
- Progress on efficiency initiatives was disappointing in the first half of the year, leading to a refocused effort in the second half. Restructuring charges were \$48 million in the second half of 2008 and only \$11 million in the first six months. The Company expects a more consistent focus in 2009
- In the fall, the Company began reorganization of three enabling business units, Technology strategy, Network operations, and Business transformation, into two integrated teams: Technology strategy and Business transformation and technology operations. Expected benefits include streamlined operations, more effective deployment of technologies and supporting systems, cost efficiencies and improved customer service
- Operational efficiency initiatives also include redirecting resources to growing parts of the business, optimization of layers of management and spans of control to reduce staff, organization-wide expense control, increased use of business process outsourcing and internal off-shoring, rationalization of products in low-value activities, consolidation of vendor management and reducing the number of vendors. In addition to team redeployments, reductions in positions were made in December 2008 and January 2009, mostly in management ranks
- Year-end employee performance bonuses were reduced due to below plan operational performance and management compensation has been frozen for 2009.

Elevate the client experience and build enhanced loyalty

- TELUS continued to achieve high retail service levels, as measured by an array of quality of service measures
- Wireless churn (a measure of the monthly customer disconnect rate) was up slightly in 2008 at 1.57%, including deactivations from turning down the Company's analog network
- Created new training initiatives for call centre agents, including the introduction of a video that clarifies processes and policies between Customer Care and the Customer Solutions Delivery teams
- Launching two-hour appointment windows, offering weekend and evening service for residential and small and medium-sized business customers, and leveraging customer surveys to build upon customer feedback.

Execute technology initiatives, including broadband and IT platforms

- LTE was chosen for future wireless 4G technology, and TELUS began implementing an HSPA next generation wireless network as an optimal path to transition to LTE, more fully described in *Section 2*. The project included an enhanced joint network sharing agreement with Bell Canada to speed the network launch and maximize coverage, and selection of two world-leading equipment suppliers – Nokia Siemens Networks and Huawei Technologies
- Broadband coverage was expanded, facilitating high-speed Internet sales and increased traction in TELUS TV sales. Commercially launched high-definition (HD) TELUS TV in select areas and, late in the year, personal video recorder (PVR) service
- The broadband coverage footprint in Edmonton, Calgary and Rimouski is sufficient for mass marketing TELUS TV, but not yet in the major market of Lower Mainland of B.C. (Vancouver area), which remains a priority for 2009
- Smoothly consolidated legacy wireline ordering, provisioning, customer management and billing software onto a single advanced platform for more than one million residential subscribers in B.C. – the same platform most Alberta residential subscribers migrated to in 2007. Front-line agents can better manage customers' services from a single application in both B.C. and Alberta.



capabilities

A description of the factors that affect the capability to execute strategies, manage key performance drivers and deliver results

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis. It is also qualified by *Section 10: Risks and risk management*.

4.1 Principal markets addressed and competition

National wireless services for consumers and businesses

TELUS capability

Licensed national wireless spectrum, with network covering most of Canada's population, with domestic and international roaming agreements

Wireless networks interconnected with TELUS' wireline networks

Provider of integrated digital wireless voice, data and Internet services on a nationwide digital PCS (CDMA) network, including a 3G high-speed coast-to-coast network in Canada with high-speed evolution data optimized (EVDO) overlay. Services are further described in *Section 1.6*

- Access to 96% of the Canadian population, when roaming/resale agreements principally with Bell Canada are included
- High-speed EVDO overlay reaches 88% of the Canadian population, when roaming/resale agreements are included

TELUS' iDEN network-based Mike service, a Push To Talk service focused on the commercial marketplace

TELUS' wireless technology and service evolution is described in *Section 2.2 Vision and Strategy – Building national capability*

- Build-out of a next generation wireless HSPA network began in 2008 with services expected to be launched commercially by early 2010, augmenting TELUS' existing wireless service portfolio and providing for an optimal future transition to LTE 4G services
- HSPA network sharing agreement with Bell Canada, building on and enhancing an agreement signed in 2001.

Competition

Existing wireless service competition includes services offered by:

- Facilities-based national competitors Rogers Wireless and Bell Mobility
- Facilities-based provincial telecommunications companies SaskTel and MTS Mobility
- Resellers of Bell Mobility's and Rogers Communications Inc.'s networks, such as the Virgin Mobile Group, 7-Eleven and certain cable-TV companies

Emerging wireless service competition includes:

- New wireless competitors, including cable-TV companies, expected to begin offering services with various regional coverages, beginning in late 2009 or 2010, as a result of the AWS spectrum auction in 2008
- Potential alliances and integrations among new regional competitors

Foreign ownership restrictions apply to facilities-based wireless service providers.

National wireline business services

TELUS capability

An IP-based national network overlaying an extensive switched network in incumbent territories in B.C., Alberta and Eastern Quebec

Global interconnection arrangements

Services are further described in *Section 1.6* and include:

- Voice and data services
- Converged voice and data solutions
- Hosting and infrastructure
- Wholesale services provided to telecommunications carriers, resellers, Internet service providers (ISPs), wireless providers, competitive local access providers and cable-TV operators
- Global contact solutions
- Customized solutions, such as provision of business process outsourcing services to the healthcare, human resources and financial services sectors
- Certain services facilitated by multi-lingual international call centres

Majority of service revenue in incumbent territories and services in non-incumbent areas, such as Ontario and Quebec, are not rate regulated.

Competition

Competition for voice and data communications services includes:

- Principally Bell Canada, as well as MTS Allstream and cable-TV companies competing with their own national infrastructures
- Substitution to wireless services including those offered by TELUS

Wholesale service competitors include Bell Canada, MTS Allstream and Rogers

Competitors for call centre services include Convergys, Sykes and Verizon LiveSource

Competitors for customized managed outsourcing solutions include system integrators CGI, EDS and IBM.

Wireline consumer services in incumbent territories of British Columbia, Alberta and Eastern Quebec

TELUS capability

Access to almost every urban and rural home and business in incumbent territories in B.C., Alberta and Eastern Quebec. TELUS wireline residential access line services are provided to an estimated 66% of households in B.C. and Alberta

Extensive switched network and significant investment in Internet infrastructure, and access to an IP-based national network

- Provision of local, long distance and Internet services

Broadcasting distribution licences to offer digital television services in select communities in incumbent territories and licences to offer commercial video-on-demand services

- TELUS TV services have been available to an increasing number of communities since 2005
- High-definition (HD) TV and personal video recorder (PVR) capabilities are increasingly available starting in 2008.

Competition

- Substitution of wireless services, including TELUS' own wireless offerings, for local and long distance services. Households with wireless telephone services only (amongst all providers, including TELUS) are estimated to be 12% in B.C. and Alberta
- Cable-TV providers Shaw Communications Inc. in B.C. and Alberta, and Cogeco Cable in Eastern Quebec, that have access to urban and suburban homes to provide Internet, entertainment and VoIP-based telephony services
- Rogers Communications, Bell Canada and potentially Shaw Communications, providing a varying combination of local, long distance, Internet and entertainment services
- Various others (e.g. Vonage) that offer resale or VoIP-based local and long distance and Internet services
- Satellite-based entertainment and Internet services (Bell Canada and Shaw Communications).

4.2 Operational resources

Operational resources

People

The Company employs 35,900 full-time equivalent multi-skilled TELUS team members across a wide range of operational functions

TELUS uses a small number of external contractors or consultants

Wireless service is dependent on extensive distribution network of exclusive dealers and third-party electronics retailers (e.g. Future Shop, London Drugs)

The Company has adequate employee resources to cover ongoing retirements, and ready access to labour in Canada and, for call centres, in various locations internationally

The Company has extensive training programs in place and has universal scorecard metrics that tie personal and corporate performance to bonus pay.

Brand and services

The Company has a well established and recognizable national brand that is supported by extensive advertising across all media

Successfully introduced the new wireless Koodo Mobile basic brand and service in March 2008

Services are summarized in *Section 4.1* above.

Technology and systems

TELUS is a highly complex technology-dependent company with a multitude of interconnected wireline and wireless telecommunications networks, IT systems and processes.

Operational risks and risk management

Employee compensation, retention and labour relations – See *Section 10.4 Human resources*

General safety – See *Section 10.8 Health, safety and environment*

Due to overheating in the Alberta economy, the Company did experience some difficulties in retaining and hiring qualified staff in 2008. However, this has abated in 2009 due to the economic slowdown

Approximately 14,650 team members are covered by a collective agreement, with a large majority (approximately 13,500) covered by collective agreements expiring in 2010 or 2011.

Industry and economy – See *Section 9: General outlook* and *Section 10.11 Economic growth and fluctuations*

Competition – See *Section 4.1* above and *Section 10.1*

Regulation – See *Section 10.3*

- None of the Wireless segment revenues are currently subject to CRTC price regulation
- Less than one-quarter of the Company's revenues are from Wireline segment regulated services and subject to CRTC price regulation
- Deregulation of local phone services for residential markets covering approximately 80% of its residential lines in non-high cost serving areas, or 67% of total residential and business lines
- Non-incumbent local exchange carrier (non-ILEC) services, long distance, Internet, international telecommunications, inter-exchange private line and certain data services, as well as the sale of customer premises equipment, continue to be forborne from regulation.

Technology – See *Section 10.2*

Process risks – See *Section 10.5*

Manmade and natural threats – See *Section 10.10*.

4.3 Liquidity and capital resources

The following discussion is qualified in its entirety by *Risks and risk management – Section 10.6 Financing and debt requirements*.

Capital structure financial policies (Note 3 of the Consolidated financial statements)

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner that balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income), long-term debt (including any associated hedging assets or liabilities, net of amounts recognized in accumulated other comprehensive income), cash and temporary investments and securitized accounts receivable in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk

characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or increase or decrease the amount of sales of trade receivables to an arm's-length securitization trust.

The Company monitors capital utilizing a number of measures, including: net debt to EBITDA – excluding restructuring costs; and dividend payout ratio of sustainable net earnings. For further discussion and specific guidelines, see *Section 7.4 Liquidity and capital resource measures*.

Financing and capital structure management plans

Activities supporting the 2008 financing plan, as outlined in 2007's Management's discussion and analysis, are described below and are followed by plans for 2009.

Reporting back on TELUS' 2008 financing and capital structure management plan
Repurchase TELUS Common Shares and TELUS Non-Voting Shares under the normal course issuer bid (NCIB)
In 2008, the Company repurchased for cancellation approximately one million Common Shares and 5.8 million Non-Voting Shares for a total outlay of \$280 million. See <i>Section 7.3 Cash used by financing activities</i> . Since December 20, 2004, TELUS has repurchased 20.2 million of its Common Shares and 39.5 million of its Non-Voting Shares for \$2.8 billion under four NCIB programs, consistent with the Company's intent to return surplus cash to shareholders.
Pay dividends
The dividend declared for the fourth quarter of 2008 (paid January 2, 2009) was 47.5 cents per share, up by 5.6% from 45 cents per share in the same period in 2007, and representing the fifth consecutive annual increase in the quarterly dividend.
Use proceeds from securitized receivables and bank facilities, as needed, to supplement free cash flow and meet other cash requirements
At December 31, 2008, the balance of proceeds from securitized accounts receivable was \$300 million, up by \$50 million from September 30, 2008, up by \$150 million from June 30, 2008, and reduced by \$200 million from March 31, 2008 and December 31, 2007. The reduction in securitized accounts receivable of \$350 million during the second quarter was completed following the closing of the public debt issue in April, while the increase in the second half can be attributed to the purchase of AWS wireless spectrum in the third quarter. In January 2008, the Company increased utilization of the \$2 billion 2012 credit facility. The proceeds were used for general corporate purposes, including the purchase of Emergis. At December 31, 2008, the balance drawn on the 2012 revolving credit facility was \$980 million, up from \$430 million at September 30, 2008, \$162 million at June 30, 2008, \$321 million at March 31, 2008, and the nil amount drawn at the beginning of the year. The increase during the first quarter helped fund the acquisition of Emergis, while the increase in the third quarter was used to fund payment for AWS spectrum licences. The increase in the fourth quarter was offset by a reduction in outstanding commercial paper.
Maintain compliance with financial objectives, policies and guidelines
Maintain a minimum \$1 billion in unutilized liquidity – On March 3, 2008, the Company closed a new \$700 million, 364-day credit facility with a select group of Canadian banks. In December, the Company renewed this \$700 million, 364-day credit facility, extending the term to March 1, 2010 under substantially the same terms and conditions, except for increased cost. The 364-day facility provides incremental liquidity to TELUS and allows the Company to continue to meet one of its financial objectives, which is to generally maintain \$1 billion in available liquidity. The Company had unutilized credit facilities of \$1.15 billion at December 31, 2008, including the 364-day facility, as well as unutilized availability under its accounts receivable securitization program. See <i>Section 7.5 Credit facilities</i> .
Net debt to EBITDA excluding restructuring costs ratio of 1.5 to 2.0 times – Actual result of 1.9 times at December 31, 2008.
Dividend payout ratio of 45 to 55% of sustainable net earnings on a prospective basis – The ratio was 56% when calculated based on the annualized fourth quarter dividend rate and earnings per share adjusted to exclude the impacts of favourable tax-related adjustments for 2008. The ratio was 54%, based on the annualized fourth quarter dividend rate and actual earnings per share for 2008.
Maintain position of fully hedging foreign exchange exposure for indebtedness
Maintained for the 8.00% U.S. dollar Notes due 2011, the one remaining foreign currency-denominated debt issue.
Give consideration to accessing the public debt markets in 2008 to refinance short-term financing sources with long-term financing
In April, TELUS successfully closed its offering of 5.95%, Series CE Notes due April 15, 2015, for aggregate gross proceeds of approximately \$500 million. The net proceeds of the offering were used for general corporate purposes including repayment of amounts under the 2012 credit facility, and to refinance short-term financing sources. In August 2008, the Company increased the maximum size of its commercial paper program from \$800 million to \$1.2 billion, which is backstopped by the Company's 2012 credit facility. At December 31, 2008, \$432 million of commercial paper was outstanding. Generally, the Company employs the lowest-cost sources of funds, which may vary over time among various debt instruments.
Preserve access to the capital markets at a reasonable cost by maintaining investment grade credit ratings and targeting improved credit ratings in the range of BBB+ to A-, or the equivalent, in the future
At February 11, 2009, investment grade credit ratings from the four rating agencies that cover TELUS were in the desired range. TELUS' April 2008 debt issue was assigned credit ratings of: A (low) by DBRS Ltd., Baa1 by Moody's Investors Service, BBB+ by Fitch Ratings, and BBB+ by Standard and Poor's, all with a stable trend or outlook and all consistent with the agencies' existing ratings for TELUS debt securities. On August 7, 2008, DBRS Ltd. confirmed its R-1 (low), stable, rating for TELUS' commercial paper program. See <i>Section 7.7 Credit ratings</i> .

TELUS' 2009 financing and capital structure management plan

At December 31, 2008, TELUS had access to undrawn credit facilities of more than \$115 billion, as well as availability under its accounts receivable securitization program. The Company has no significant maturities of long-term debt until 2011. The Company believes it has sufficient capability to fund its requirements from these facilities and expects to generate free cash flow in 2009, which would be available to, among other things, repurchase shares and pay dividends to shareholders. While anticipated cash flow is expected to be more than sufficient to meet current operating requirements, TELUS may issue long-term public debt or establish new term credit facilities in 2009 to refinance short-term financing sources or upcoming debt maturities.

In 2009, TELUS plans to remain in compliance with its financial policies, and these intentions could constrain TELUS' ability to invest in its operations for future growth or to complete share repurchases. TELUS has set its financial policies with the expectation that substantial cash tax payments will commence in 2009 both in respect of 2008 and on an instalment basis in respect of 2009. Payment of cash income taxes will reduce the after-tax cash flow otherwise available to return capital to shareholders. The Company also expects to make increased contributions to its employee defined benefit pension plans in 2009, as described in *Section 1.5*. If actual results are different from TELUS' expectations, there can be no assurance that TELUS will not need to change its financing plans, including its intention to repurchase shares under the NCIB program, or pay dividends according to the target payout guideline.

TELUS expects to maintain its current position of fully hedging its foreign exchange exposure for indebtedness. At the end of 2008, 77% of TELUS' total debt was on a fixed-rate basis, and the weighted average term to maturity was approximately four years.

At December 31, 2008, TELUS also has access to a shelf prospectus pursuant to which it can issue \$2.5 billion of debt and equity. TELUS believes that its investment grade credit ratings provide reasonable access to capital markets to facilitate future debt issuance. For the related risk discussion, see *Section 10.6 Financing and debt requirements*.

Debt maturities

As at December 31, 2008 (\$ millions)	Long-term debt maturities ⁽¹⁾ , principal		Interest and like carrying costs ⁽²⁾
	All except capital leases	Capital leases	
2009	1	3	462
2010	80	2	460
2011	2,950	—	330
2012	1,712	—	179
2013	300	—	147
Thereafter	1,949	—	750
Total	6,992	5	2,328

(1) Where applicable, principal-related maturities reflect foreign currency exchange rates at December 31, 2008.

(2) Interest and like carrying costs for commercial paper and amounts drawn under the Company's credit facility have been calculated based upon rates in effect as at December 31, 2008.

4.4 Disclosure controls and procedures and internal control over financial reporting

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (CEO) and the Executive Vice-President and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of Management's discussion and analysis and the Consolidated financial statements. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's discussion and analysis and the Consolidated financial statements contained in this report were being prepared.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP and the requirements of the Securities and Exchange Commission in the United States, as applicable. TELUS' CEO and CFO have assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008 in accordance with *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, TELUS' CEO and CFO have determined that the Company's internal control over financial reporting is effective as at December 31, 2008 and expect to certify TELUS' annual filings with the U.S. Securities and Exchange Commission on Form 40-F, as required by the United States Sarbanes-Oxley Act, and with Canadian securities regulatory authorities.

Deloitte & Touche LLP, the Company's auditor, has audited internal controls over financial reporting of TELUS Corporation as at December 31, 2008.

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

5

results from operations

A detailed discussion of operating results for 2008

5.1 Selected annual information

The following selected three-year consolidated financial information has been derived from and should be read in conjunction with the Consolidated financial statements of TELUS for the year ended December 31, 2008, and its annual Consolidated financial statements for previous years.

Years ended December 31 (\$ in millions, except per share amounts)	2008	2007	2006
Operating revenues	9,653	9,074	8,681
Operations expense ⁽¹⁾	5,815	5,465	4,998
Restructuring costs	59	20	68
Depreciation and amortization	1,713	1,615	1,576
Total operating expenses	7,587	7,100	6,642
Financing costs and other expense	499	476	533
Income before income taxes and non-controlling interest	1,567	1,498	1,506
Income taxes	436	233	353
Net income and Common Share and Non-Voting Share income	1,128	1,258	1,145
Earnings per share ⁽²⁾ – basic	3.52	3.79	3.33
Earnings per share ⁽²⁾ – diluted	3.51	3.76	3.30
Cash dividends declared per share ⁽²⁾	1.825	1.575	1.20
Total assets	19,160	16,988	16,661
Current maturities of long-term debt	4	5	1,434
Long-term debt	6,348	4,584	3,475
Derivative and other long-term financial liabilities	1,103	1,507	1,037
Total long-term financial liabilities	7,451	6,091	4,512
Future income taxes	1,255	1,048	1,077
Non-controlling interests	23	26	24
Common equity	7,182	6,926	7,048

(1) Including net-cash settlement feature expense of \$169 million in 2007.

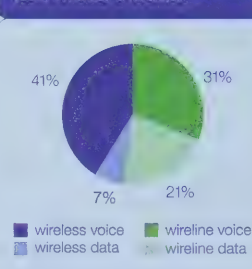
(2) Common Shares and Non-Voting Shares.

Changes over the three years

include:

- Revenues increased in 2008 and 2007 due to growth from wireless services and wireline data services, with wireline including two acquisitions in January 2008. Wireless revenues and wireline data revenues represent approximately 69% of consolidated revenues in 2008, as compared to 67% in 2007 and 63% in 2006;
- Total operating expenses include increased amortization of intangible assets in 2007 and 2008, which is primarily from implementation of converged billing and client care software supporting residential customers in Alberta and B.C., as well as amortization of software from the acquisition of Emergis in January 2008. Acquisitions in January 2008 contributed to the increase in operations expense in that year. In 2007, the introduction of a net-cash settlement feature for share option awards granted prior to 2005 increased operations expense by \$169 million;
- Financing costs and other expenses include varying amounts of interest income; and
- Net income included significant favourable income tax-related adjustments resulting from legislated income tax changes, settlements and tax reassessments for prior years, including any related interest. The amounts were approximately \$49 million (15 cents per share) in 2008, \$257 million (78 cents per share) in 2007 and \$171 million (50 cents per share) in 2006.

2008 REVENUE MIX
(69% wireless and data)



5.2 Quarterly results summary and fourth quarter recap

(\$ in millions, except per share amounts)	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Operating revenues	2,454	2,450	2,399	2,350	2,330	2,310	2,228	2,206
Operations expense ⁽¹⁾	1,479	1,465	1,477	1,394	1,371	1,317	1,340	1,437
Restructuring costs	38	10	4	7	6	6	3	5
EBITDA ⁽²⁾	937	975	918	949	953	987	885	764
Depreciation	351	344	343	346	386	333	318	318
Amortization of intangible assets	84	92	77	76	68	70	73	49
Operating income	502	539	498	527	499	584	494	397
Other expense (income)	11	6	2	17	6	8	18	4
Financing costs	118	122	114	109	109	86	127	118
Income before income taxes and non-controlling interest	373	411	382	401	384	490	349	275
Income taxes (recovery)	88	125	114	109	(19)	79	94	79
Non-controlling interests	—	1	1	1	3	1	2	1
Net income	285	285	267	291	400	410	253	195
Income per Common Share and Non-Voting Share – basic	0.90	0.89	0.83	0.90	1.23	1.24	0.76	0.58
– diluted	0.89	0.89	0.83	0.90	1.22	1.23	0.75	0.57
Dividends declared per Common Share and Non-Voting Share	0.475	0.45	0.45	0.45	0.45	0.375	0.375	0.375

(1) Includes net-cash settlement feature expense (recovery):

— — — — 1 (7) 1 174

(2) EBITDA is a non-GAAP measure. See Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA).

Trends

The consolidated revenue trend continues to reflect both growth in wireless network revenues generated from an increasing subscriber base, as well as strong growth in wireline data revenue, which includes new revenues from two January 2008 acquisitions. In 2008, wireless average revenue per subscriber unit per month (ARPU) decreased by 1% from 2007, as declining voice ARPU more than offset strong growth in data ARPU. The voice ARPU decline reflects pricing competition, increased use of in-bucket or included-minute service plans, and the recent launch of the postpaid basic brand. TELUS' Mike service has a significant exposure to the transport, construction, automotive and oil and gas sectors, which have been affected by the economic downturn in 2008, resulting in a weakening in Mike ARPU, particularly later in the year.

Prior to 2008, wireline data revenue growth was fully offset by declining wireline voice local and long distance revenues, due to substitution for wireless and Internet services, as well as competition from VoIP service providers, resellers and facilities-based competitors. Residential network access line losses continue at recent run rate levels, as TELUS' main cable-TV competitor expanded its product offerings, competitive pricing and coverage. Partially offsetting the residential line losses were continued gains in business network access lines.

Historically, there has been significant fourth quarter seasonality with respect to higher wireless subscriber additions, related acquisition costs and equipment sales, resulting in lower fourth quarter wireless EBITDA. The third quarter is becoming more significant as well, with back-to-school offers. Historically, there was a less pronounced fourth quarter seasonal effect for wireline high-speed Internet subscriber additions and related costs, which is no longer significant.

Starting in 2008, consolidated Operations expense includes expenses from two January acquisitions. Beginning with the first quarter of 2007, Operations expense includes expenses or recoveries for introducing a net-cash settlement feature for share option awards granted prior to 2005.

Depreciation expense increased beginning in the second half of 2007 with a reduction in estimated useful service lives for certain circuit switching, network management and other assets in the third and fourth quarters of 2007 and first quarter of 2008.

Amortization of intangible assets in the fourth quarter of 2008 and first quarter of 2007 is net of investment tax credits of \$6 million and \$5 million, respectively. The investment tax credits were each applied following a determination of eligibility by a government tax authority and relate to assets capitalized in prior years that are now fully amortized. Amortization increased by \$18 million beginning in the second quarter of 2007 from a major new wireline billing and client care platform put into service for Alberta residential customers in March 2007. The sequential increase in amortization of intangible assets in the first quarter of 2008 was due mainly to acquisitions. Implementation of the new phase of the billing platform for B.C. residential customers in mid-July 2008 increased amortization in the third quarter of 2008 by \$5 million and an additional \$3 million in the fourth quarter of 2008.

Financing costs shown in the preceding table are net of varying amounts of interest income, including interest from the settlement of prior years' income tax-related matters, particularly in the third quarter of 2007. Interest expenses had been trending lower due primarily to a lower effective interest rate from financing activities in the first half of 2007 and April 2008. An increase in interest expenses in the third and fourth quarters of 2008 resulted from a higher debt balance that helped fund January acquisitions and the payment for advanced wireless services spectrum licences.

The trends in Net income and earnings per share (EPS) reflect the items noted above, as well as adjustments arising from legislated income tax changes, settlements and tax reassessments for prior years, including any related interest on reassessments. EPS has been positively impacted by decreased shares outstanding from ongoing share repurchases.

Income tax-related adjustments

(\$ in millions, except EPS amounts)	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2	2007 Q1
Approximate Net income impact	32	—	—	17	143	93	17	4
Approximate EPS impact	0.10	—	—	0.05	0.44	0.28	0.05	0.01
Approximate basic EPS excluding tax-related impacts	0.80	0.89	0.83	0.85	0.79	0.96	0.71	0.57

In addition to income tax-related adjustments, unfavourable adjustments for sales tax reassessments for prior years were recorded in the third quarter of 2008 and second quarter of 2007. The after-tax adjustments were approximately \$8 million (two cents per share) in the third quarter of 2008, and approximately \$7 million (two cents per share) in the second quarter of 2007.

Fourth quarter

Management's review of operations contained in TELUS' fourth quarter news release on February 13, 2009, discussed fourth quarter results in more detail. The following summarizes changes in the fourth quarter operating results in 2008, as compared to 2007.

Operating revenues increased by \$124 million, or 5%, in the fourth quarter of 2008 when compared to the same period in 2007 as a result of 7% growth in wireless revenue and 4% growth in wireline revenue. Operating income adjusted to exclude the net-cash settlement feature increased by \$2 million in the fourth quarter of 2008 when compared to 2007, primarily due to lower depreciation expenses, net of \$17 million lower wireline EBITDA (as adjusted) and increased amortization of software assets. Income before income taxes (as adjusted) decreased by \$12 million in the fourth quarter of 2008 when compared to 2007 due to lower operating income (as adjusted) and higher net financing costs.

Net income decreased by \$115 million or 33 cents per share (basic) in the fourth quarter of 2008 when compared to the same period in 2007. The decrease included lower net income tax recoveries and related interest of \$111 million (34 cents per share). Net income before income tax-related adjustments decreased by \$4 million.

Net income changes

Fourth quarters ended December 31 (\$ millions)	
Net income in 2007	400
Deduct favourable income tax-related adjustments in 2007	(143)
	257
Tax-effected changes:	
Lower net-cash settlement feature expense	1
Lower EBITDA as adjusted ⁽¹⁾	(12)
Lower depreciation and amortization ⁽¹⁾ , excluding investment tax credits	9
Interest expenses ⁽¹⁾	(8)
Other	6
	253
Favourable income tax-related adjustments in 2008	32
Net income in 2008	285

(1) For the purposes of this presentation, the 2008 blended statutory tax rate was used.

Cash provided by operating activities decreased by \$71 million in the fourth quarter of 2008 when compared to 2007, primarily due to lower recoveries of income taxes and related interest, partly offset by an increase in proceeds from securitized accounts receivable. Cash used by investing activities increased by \$171 million in the fourth quarter of 2008 when compared to 2007, primarily due to higher capital expenditures.

Net cash used by financing activities decreased by \$191 million in the fourth quarter of 2008 when compared to the same period in 2007, as fewer shares were repurchased under NCIB programs and the dividend for the fourth quarter of 2008 was remitted on the January 2, 2009 payment date (while the dividend for the fourth quarter of 2007 was remitted on December 31, 2007 for the January 1, 2008 payment date).

5.3 Consolidated results from operations

Years ended December 31 (\$ in millions, except EBITDA margin and employees)	2008	2007	Change
Operating revenues	9,653	9,074	6.4%
Operations expense	5,815	5,465	6.4%
Restructuring costs	59	20	195%
EBITDA ⁽¹⁾	3,779	3,589	5.3%
Depreciation	1,384	1,355	2.1%
Amortization of intangible assets	329	260	27%
Operating income	2,066	1,974	4.7%
Operations expense (as adjusted) ⁽²⁾	5,815	5,296	9.8%
EBITDA (as adjusted) ⁽²⁾	3,779	3,758	0.6%
Operating income (as adjusted) ⁽²⁾	2,066	2,143	(3.6)%
EBITDA margin (%) ⁽³⁾	39.1	39.6	(0.5) pts
EBITDA margin (as adjusted) (%) ⁽³⁾	39.1	41.4	(2.3) pts
Total full-time equivalent (FTE) employees	35,900	33,400	7.5%

(1) EBITDA is a non-GAAP measure. See Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA).
(2) Excluding net-cash settlement feature expense of \$169 million in 2007.
(3) EBITDA or EBITDA (as adjusted) divided by Operating revenues.

The following discussion is for the consolidated results of TELUS. Segmented discussion is provided in Section 5.4 Wireline segment results, Section 5.5 Wireless segment results and Section 7.2 Cash used by investing activities – capital expenditures.

Operating revenues

Operating revenues increased by \$579 million in 2008 when compared to 2007. Revenue and subscriber growth continued in 2008 in wireless operations and wireline data services. Wireline data revenue was also positively impacted by two acquisitions completed in January 2008. Voice long distance revenue continued to erode, while voice local revenue showed a year-over-year decrease due to the effects of local competition and technological substitution.

Operations expense

Operations expense for 2008 increased by \$350 million when compared to 2007. Operations expense adjusted to exclude the net-cash settlement feature increased by \$519 million. Wireline expense increases were due to acquisitions, increased cost of sales and initial implementation costs for new wireline enterprise customers, partly offset by the absence of post-conversion expenses recorded in 2007 for a new Alberta wireline billing and client care platform. Wireless expenses increased to support the 10% year-over-year growth in the wireless subscriber base and 9% growth in wireless network revenue, and included support costs for growing data service adoption and start-up costs associated with the launch of the new Koodo brand. Expense increases in both segments were net of lower accrued year-end employee performance bonuses resulting from below plan operational performance. Full-time equivalent employees increased by 2,500, mainly due to an increase of 1,300 wireline staff in business process outsourcing services for customers and 1,100 from the January acquisition of Emergis, net of a reduction of 400 in other wireline operations. Wireless FTE employees increased by 500 to support subscriber growth.

TELUS' defined benefit pension plan net amortization did not change significantly in 2008. In 2009, management expects the net expense for, and contributions to, defined benefit plans to increase. See assumptions for 2009 in *Section 1.5 Financial and operating targets for 2009*. Bad debt expense increased by \$28 million in 2008, due to growing and broadening subscriber bases.

Restructuring costs

Restructuring costs increased by \$39 million in 2008 when compared to 2007. Restructuring expenses in 2008 were in respect of approximately 35 efficiency initiatives, which included a reorganization of three enabling business units (Technology strategy, Network operations and Business transformation) into two integrated teams, redirection of resources to growing parts of the business, optimization of layers of management and spans of control to reduce staff, increased use of business process outsourcing, rationalization of products in low-value activities, re-alignment of sales forces, simplification of marketing strategies, and consolidation of vendor management. An expense between \$50 million and \$75 million is expected for efficiency initiatives in 2009.

EBITDA

Consolidated EBITDA increased by \$190 million in 2008 when compared to 2007. Excluding the net-cash settlement feature, consolidated EBITDA (as adjusted) increased by \$21 million, as a \$75 million increase in wireless EBITDA (as adjusted) more than offset the \$54 million decrease in wireline EBITDA (as adjusted).

Depreciation

Depreciation increased by \$29 million in 2008 when compared to 2007. The increase resulted from a reduction in estimated useful service lives for certain digital circuit switching assets in 2008, partly offset by \$67 million in accelerated depreciation recorded in 2007 to reflect a reduction in estimated useful service lives for certain digital remote circuit switching, network management and other assets.

Amortization of intangible assets

Amortization increased by \$69 million in 2008 when compared to 2007. The increase included: (i) \$51 million for January 2008 acquisitions (primarily software amortization); (ii) \$13 million for the July 2008 implementation of the converged wireline billing and client care platform in B.C.; (iii) \$19 million of additional amortization in 2008 arising from the Alberta implementation of the new wireline billing and client care platform put into service in March 2007; and (iv) net increases in other intangible assets subject to amortization. The increases were partly offset by lower amortization of wireless subscriber base assets, which are now fully amortized, as well as accelerated amortization in 2007 related to the discontinuation of AMP'D Mobile Canada services.

In addition, amortization was reduced through application of investment tax credits (ITCs) of \$6 million in 2008 and \$5 million in 2007. The ITCs were applied following determination of eligibility by the taxation authority, and were for assets capitalized in prior years that were fully amortized.

Amortization is expected to increase for the full year of 2009 as compared to 2008, mainly due to an additional seven months amortization for the B.C. phase of the converged wireline client care and billing platform. See *Caution regarding forward-looking statements*.

Annual testing for impairment of intangible assets with indefinite lives and goodwill was conducted in December. It was determined that there were no impairments. See *Section 8.1 Critical accounting estimates – Capital assets and Goodwill*.

Operating income

Operating income increased by \$92 million in 2008 when compared to 2007. Operating income adjusted to exclude the net-cash settlement feature in 2007 decreased by \$77 million, as increased depreciation and amortization more than offset higher EBITDA (as adjusted).

Other expense, net

Years ended December 31 (\$ millions)	2008	2007	Change
	36	36	–%

Other expense includes accounts receivable securitization expense, income (losses) or impairments in equity or portfolio investments, gains and losses on disposal of real estate, and charitable donations. Accounts receivable securitization expenses were \$11 million in 2008 as compared to \$21 million in 2007. The decrease reflected lower proceeds from securitized accounts receivable (see *Section 7.6 Accounts receivable sale*). Net losses on investments were \$10 million in 2008. In 2007, a \$12 million write-off of an equity investment in AMP'D Mobile, Inc. was largely offset by other net gains. In addition, approximately \$4 million was recorded in 2007 for various costs of assessing whether to acquire BCE, which ultimately led to the decision to not bid for BCE. Charitable donations were \$17 million in 2008 and \$16 million in 2007.

Financing costs

Years ended December 31 (\$ millions)	2008	2007	Change
Interest on long-term debt, short-term obligations and other	481	464	3.7%
Foreign exchange (gains) losses	(1)	13	n.m.
Capitalized interest during construction	(3)	—	—
Interest income	(14)	(37)	62%
	463	440	5.2%

Interest expenses on long-term and short-term debt and other increased by \$17 million in 2008 when compared to 2007, mainly due to a higher debt balance used to finance acquisitions and pay for AWS spectrum licences, partly offset by a lower effective interest rate. An adjustment recorded in 2007 for application of the effective rate method for issue costs required under CICA Handbook Section 3855 (recognition and measurement of financial instruments) also contributed to the increase in 2008.

Interest income decreased by \$23 million in 2008 when compared to 2007, mainly due to lower interest from tax settlements and lower average temporary investment and bank balances in 2008.



Income taxes

Years ended December 31 (\$ millions)	2008	2007	Change
Basic blended federal and provincial tax at statutory income tax rates	486	503	(3.4)%
Revaluation of future income tax liability to reflect future statutory income tax rates	(41)	(177)	—
Tax rate differential on, and consequential adjustments from, reassessments of prior years' tax issues	(21)	(79)	—
Share option award compensation	6	(4)	—
Other	6	(10)	—
	436	233	87%
Blended federal and provincial statutory tax rates (%)	31.0	33.6	(2.6) pts
Effective tax rates (%)	27.8	15.6	12.2 pts

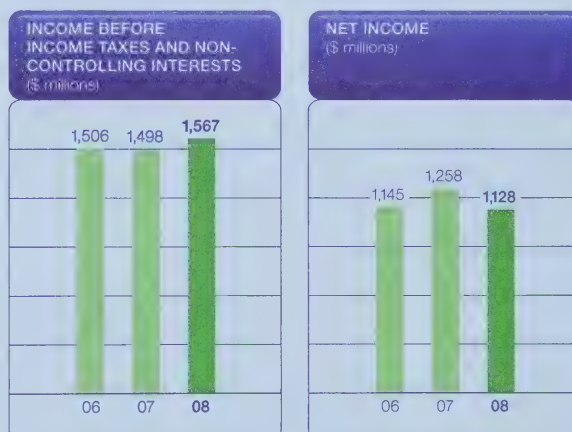
Blended statutory income taxes decreased in 2008 due to lower blended statutory tax rates, partly offset by the 5% increase in income before taxes. A 1% reduction in B.C. provincial income tax rates beginning July 1, 2008 was substantively enacted in the first quarter of 2008. Previous reductions to federal income tax rates for 2008 to 2012 were enacted in 2007. The effective tax rates in both years were lower than the statutory tax rates due to revaluations of future income tax liabilities resulting from enacted reductions to future provincial and federal income tax rates, future tax rates being applied to temporary differences, and reassessments of prior years' tax matters.

Income tax instalment payments were \$14 million in 2008 (\$10 million net of tax refunds received). Based on the assumption of the continuation of the rate of the Company's earnings, the existing legal entity structure, and no substantive changes to tax regulations, TELUS expects net income tax payments to increase substantially in 2009, in respect of final 2008 tax year remittances and 2009 instalments. See *Section 1.5 Financial and operating targets for 2009*.

Non-controlling interests

Years ended December 31 (\$ millions)	2008	2007	Change
	3	7	(57)%

Non-controlling interests represents minority shareholders' interests in small subsidiaries.



Comprehensive income

Currently, the concept of comprehensive income for purposes of Canadian GAAP, in the Company's specific instance, is primarily to include changes in shareholders' equity arising from unrealized changes in the fair values of financial instruments. The calculation of earnings per share is based on Net income and Common Share and Non-Voting Share income, as required by GAAP.

5.4 Wireline segment results

Operating revenues – wireline segment

Years ended December 31 (\$ millions)	2008	2007	Change
Voice local	1,973	2,064	(4.4)%
Voice long distance ⁽¹⁾	700	715	(2.1)%
Data ⁽²⁾	2,072	1,772	17%
Other	276	259	6.6%
External operating revenue ⁽³⁾	5,021	4,810	4.4%
Intersegment revenue	131	114	15%
Total operating revenues ⁽³⁾	5,152	4,924	4.6%

(1) Voice long distance revenue decreased by 4% in 2008 when the impact of a second quarter 2007 adjustment, associated with the Alberta billing system conversion, is excluded.

(2) Data revenue increased by approximately 6% in 2008, when revenues from acquisitions are excluded from 2008 and the impact of mandated retroactive competitor price reductions are excluded from both years.

(3) External and total operating revenue growth was essentially flat in 2008, when excluding revenues from acquisitions and regulatory adjustments.

Wireline segment revenues increased by \$228 million in 2008 when compared to 2007, due to the following:

- Voice local revenue decreased by \$91 million. The decrease was mainly due to: (i) lower revenues from basic access and optional enhanced service revenues caused by increased competition for residential subscribers and consequent decline in local residential access lines, offset in part by growth in business local services and access lines; and (ii) lower recoveries from the price cap deferral account.

The 2007 deferral account recovery of approximately \$14.5 million included previously incurred amounts associated with mandated local number portability and start-up costs, and it offset unfavourable mandated retroactive rate adjustments in the same period for basic data revenue pursuant to two CRTC regulatory decisions (see the discussion for wireline data revenue below).

Network access lines (NALs)

As at December 31 (000s)	2008	2007	Change
Residential NALs	2,402	2,596	(7.5)%
Business NALs	1,844	1,808	2.0%
Total NALs	4,246	4,404	(3.6)%

Years ended December 31 (000s)	2008	2007	Change
Change in residential NALs	(194)	(179)	(8.4)%
Change in business NALs	36	35	2.9%
Change in total NALs	(158)	(144)	(9.7)%

Residential line losses reflect the effect of increased competition from resellers and VoIP competitors (including cable-TV companies), as well as technological substitution to wireless services. The increase in business lines was experienced in Ontario and Quebec urban areas.

- Voice long distance revenues decreased by \$15 million in 2008 when compared to 2007. The decrease was partly offset by a \$13 million negative one-time adjustment in the second quarter of 2007, associated with implementation of a new billing platform for Alberta residential customers. Excluding the one-time adjustment in 2007, revenue decreased by \$28 million, due mainly to lower average per-minute rates resulting from industry-wide price competition and a lower base of residential subscribers, partly offset by higher minute volumes.

- Wireline data revenues increased by \$300 million in 2008 when compared to 2007. Data revenue increased primarily due to: (i) revenues from two acquisitions in January 2008; (ii) increased Internet, enhanced data and hosting service revenues from growth in business services and high-speed Internet subscribers; (iii) increased broadcast, videoconferencing and data equipment sales; (iv) mandatory retroactive rate reductions recorded in 2007 (as noted in the next paragraph); and (v) increased provision of digital entertainment services to consumers in urban incumbent markets. The underlying growth in 2008, absent acquisitions and regulatory adjustments, was approximately 6%.

Pursuant to CRTC Decision 2007-6 (relating to digital network access link charges) and CRTC Decision 2007-10 (relating to basic service extension feature charges), retroactive rate reductions totalling approximately \$11 million in basic data services revenues were recorded in the first quarter of 2007.

Internet subscribers

As at December 31 (000s)	2008	2007	Change
High-speed Internet subscribers	1,096	1,020	7.5%
Dial-up Internet subscribers	124	155	(20)%
Total Internet subscribers	1,220	1,175	3.8%

Years ended December 31 (000s)	2008	2007	Change
High-speed Internet net additions	76	103	(26)%
Dial-up Internet net reductions	(31)	(39)	21%
Total Internet subscriber net additions	45	64	(30)%

High-speed Internet subscriber net additions were lower in 2008 when compared to the same period in 2007, due to a maturing market and a cable-TV competitor's expanded product offerings.

- Other revenue increased by \$17 million in 2008 when compared to 2007. The increase was due primarily to higher voice equipment sales, net of 2007 recoveries for quality of service rate rebates following CRTC decisions that clarified the application of such rebate rules to TELUS.
- Intersegment revenue represents services provided by the wireline segment to the wireless segment. These revenues are eliminated upon consolidation together with the associated expense in the wireless segment.

Operating expenses – wireline segment

Years ended December 31 (\$ millions, except employees)	2008	2007	Change
Salaries, benefits and other employee-related costs, before net-cash settlement feature	1,853	1,729	7.2%
Net-cash settlement feature expense	–	145	(100)%
Other operations expenses	1,474	1,348	9.3%
Operations expense	3,327	3,222	3.3%
Restructuring costs	51	19	168%
Total operating expenses	3,378	3,241	4.2%
Operations expense (as adjusted) ⁽¹⁾	3,327	3,077	8.1%
Total operating expenses (as adjusted) ⁽¹⁾⁽²⁾	3,378	3,096	9.1%
Wireline FTE employees ⁽³⁾	27,700	25,700	7.8%

(1) Excluding net-cash settlement feature expense.

(2) Total operating expenses (as adjusted), excluding acquisitions in 2008, increased by approximately 4%.

(3) FTE employees include TELUS International FTE employees (8,000 in 2008 and 6,700 in 2007) and Emergis FTE employees (1,100 in 2008 as a result of the January acquisition). Excluding TELUS International and Emergis FTEs, the change was a reduction of 400 or 2.1%.

Total operating expenses excluding the net-cash settlement feature expense increased by \$282 million in 2008 when compared to 2007, mainly due to acquisitions, increased cost of sales, base compensation increases in the first quarter, and initial costs incurred to implement services for new enterprise customers. These increases were partly offset by a reduction of year-end employee performance bonuses in the fourth quarter reflecting below plan operational performance, and absence in 2008 of billing system post-conversion expenses recorded in the second and third quarters of 2007. The 2007 system post-conversion expenses totalled \$24 million for temporary labour to perform system fixes and maintain service levels after implementation of the wireline billing and client care platform in Alberta.

- Salaries, benefits and employee-related costs increased by \$124 million in 2008 when compared to 2007. The increase resulted from Emergis operations acquired in January 2008 and implementation of new services for enterprise customers, as well as base compensation increases earlier in the year, partly offset by a reduction of year-end employee performance bonuses in the fourth quarter and efficiency initiatives targeting discretionary employee-related expenses such as travel in the latter part of the year.
- Other operations expenses increased by \$126 million in 2008 when compared to 2007. The increase was due to: (i) higher costs of sales for increased data equipment sales with lower margins; (ii) expenses in acquired companies; (iii) higher costs for the provision of digital entertainment services; (iv) higher U.S. and international transit and termination costs in the fourth quarter due to a lower Canadian dollar; and (v) higher off-net facility costs to support new enterprise customers. These increases were partly offset by higher capitalized labour and lower advertising and promotional costs. Capitalized labour costs increased in parallel with higher wireline capital expenditures. Due to a successful conversion of B.C. residential subscribers to the converged wireline billing platform in 2008, conversion costs did not have the extra system post-conversion expenses required in 2007 for implementing the wireline billing and client care platform in Alberta.
- Restructuring costs increased by \$32 million in 2008 when compared to 2007 and were for a number of initiatives under the Company's competitive efficiency program.

EBITDA (\$ millions) and EBITDA margin (%) – wireline segment

Years ended December 31	2008	2007	Change
EBITDA	1,774	1,683	5.4%
EBITDA (as adjusted) ⁽¹⁾⁽²⁾	1,774	1,828	(3.0)%
EBITDA margin	34.4	34.2	0.2 pts
EBITDA margin (as adjusted)	34.4	37.1	(2.7) pts

(1) Excluding net-cash settlement feature expense of \$145 million in 2007.

(2) EBITDA (as adjusted), excluding acquisitions in 2008, decreased by approximately 5%.

Wireline segment EBITDA increased by \$91 million in 2008 when compared to 2007, mainly due to the net-cash settlement feature expense recorded in 2007. Wireline EBITDA (as adjusted) decreased by \$54 million due to increased restructuring charges, lower margins on increased data equipment sales, initial costs to implement services for new enterprise customers, and higher costs for the provision of digital entertainment services.

The EBITDA margin increase for 2008 resulted mainly from the significant net-cash settlement feature expense recorded in 2007. EBITDA margin (as adjusted) decreased due to early stage expenses for implementing large complex deals, as well as lower incremental margins on growing data services and higher restructuring charges.

5.5 Wireless segment results

Operating revenues – wireless segment

Years ended December 31 (\$ millions)	2008	2007	Change
Network revenue	4,369	4,008	9.0%
Equipment revenue	263	256	2.7%
External operating revenue	4,632	4,264	8.6%
Intersegment revenue	28	27	3.7%
Total operating revenues	4,660	4,291	8.6%

Key operating indicators – wireless segment

As at December 31 (000s)	2008	2007	Change
Subscribers – postpaid	4,922	4,441	11%
Subscribers – prepaid	1,207	1,127	7.1%
Subscribers – total	6,129	5,568	10%
Proportion of subscriber base that is postpaid (%)	80.3	79.8	0.5 pts
Digital POPs ⁽¹⁾ covered (millions) ⁽²⁾	32.6	31.6	3.2%

Years ended December 31	2008	2007	Change
Subscriber gross additions – postpaid	1,062	850	25%
Subscriber gross additions – prepaid	593	584	1.5%
Subscriber gross additions – total	1,655	1,434	15%
Subscriber net additions – postpaid	481	365	32%
Subscriber net additions – prepaid	80	150	(47)%
Subscriber net additions – total ⁽³⁾	561	515	8.9%
Subscriber net additions – total adjusted ⁽³⁾	588	515	14%
ARPU (\$) ⁽⁴⁾	62.73	63.56	(1.3)%
Churn, per month (%) ⁽³⁾⁽⁴⁾	1.57	1.45	0.12 pts
Adjusted churn, per month (%) ⁽³⁾	1.52	1.45	0.07 pts
COA ⁽⁴⁾ per gross subscriber addition (\$) ⁽⁴⁾	346	395	(12)%
Average minutes of use per subscriber per month (MOU)	411	404	1.7%
EBITDA (as adjusted) ⁽⁶⁾ to network revenue (%)	45.9	48.2	(2.3) pts
Retention spend to network revenue (%) ⁽⁴⁾	9.1	7.6	1.5 pts
EBITDA (as adjusted) excluding COA ⁽⁴⁾ (\$ millions)	2,579	2,495	3.4%

pts – percentage points

- POPs is an abbreviation for population. A POP refers to one person living in a population area, which in whole or substantial part is included in the coverage areas.
- Including roaming/resale agreements. At December 31, 2008, TELUS' wireless PCS digital population coverage included expanded coverage of approximately 7.5 million PCS POPs due to roaming/resale agreements principally with Bell Canada.
- Net additions and blended churn for 2008 include the impact of TELUS' analog network shutdown on September 15, 2008. Adjusted subscriber net additions and churn exclude the impact of 27,600 subscriber deactivations resulting from turning down the analog network.
- See Section 11.3 Definitions of key wireless operating indicators. These are industry measures useful in assessing operating performance of a wireless company, but are not defined under accounting principles generally accepted in Canada and the U.S.
- Cost of acquisition.
- Excluding net-cash settlement feature expense of \$24 million in 2007.

Wireless segment revenues increased by \$369 million in 2008 when compared to 2007, due to the following:

- Network revenue increased by \$361 million, due primarily to strong wireless data revenues and the 10% growth in the subscriber base over the past year. Wireless data revenues were \$690 million in 2008, up 55% from 2007, and now represent 16% of network revenue (11% of network revenue in 2007). Growth in data revenues continues to reflect strength in text messaging (including incoming text messages) and smartphone service revenues driven by increased usage and features, data roaming, migration of existing subscribers to full-function smartphones and EVDO-capable handsets.

Blended ARPU of \$62.73 in 2008 was down by \$0.83 when compared to 2007, as competitive pressures on voice revenues and strong growth in the basic brand service were largely offset by growth in data services. Data ARPU in 2008 was \$9.84, up \$2.82 or 40% as compared to 2007. Voice ARPU was \$52.89 in 2008, down \$3.65 or 6.5% as compared to 2007. The decrease in voice ARPU was due to pricing competition, lower Mike service ARPU, increased use of included-minute rate plans, penetration of the new basic brand service, and lower voice roaming revenue. This was partially offset by strong feature upsell, including long distance and calling packages. Lower volume non-push-to-talk-centric Mike subscribers continue to be actively migrated to PCS smartphones for the enhanced data applications, contributing to future revenue growth opportunities.

Gross and net subscriber additions in 2008 include the results of TELUS' postpaid basic brand first launched in March 2008. Consistent with industry practice, the Company does not break out the results for this service for competitive reasons. Despite softening economic conditions, gross subscriber additions in 2008 were a TELUS record 1.66 million, up 15% when compared to 2007. The proportion of postpaid gross additions for 2008 was 64%, up five percentage points when compared to 2007.

Net additions in 2008 (excluding deactivation of analog subscribers) were 588,000, up 14% from 2007, and included 86% postpaid subscribers, up from 71% postpaid subscribers in 2007.

Blended churn (excluding deactivation of analog subscribers) for the full year of 2008 was 1.52%, increasing from 1.45% in 2007. The increase reflected greater competitive intensity, including the impact of higher prepaid churn, in part due to the growth of basic postpaid brands in the market. The blended churn rate including deactivation of analog subscribers was 1.57% in the full year of 2008.

- Equipment sales, rental and service revenue increased by \$7 million in 2008 when compared to 2007. Equipment sales increased due to higher gross subscriber additions and retention volumes, which were partly offset by lower per-unit revenues. Lower per-unit revenues were due to increased promotional activity driving smartphone adoption, including lower industry-wide smartphone pricing and penetration of the Koodo brand.
- Intersegment revenues represent services provided by the wireless segment to the wireline segment and are eliminated upon consolidation along with the associated expense in the wireline segment.

Operating expenses – wireless segment

Years ended December 31 (\$ millions, except employees)	2008	2007	Change
Equipment sales expenses	720	656	9.8%
Network operating expenses	603	514	17%
Marketing expenses	470	439	7.1%
General and administration expenses	854	775	10%
Operations expense	2,647	2,384	11%
Restructuring costs	8	1	n.m.
Total operating expenses	2,655	2,385	11%
Operations expense (as adjusted) ⁽¹⁾	2,647	2,360	12%
Total operating expenses (as adjusted) ⁽¹⁾	2,655	2,361	12%
Wireless FTE employees	8,200	7,700	6.5%

(1) Excluding net-cash settlement feature expense of \$24 million in 2007.

Wireless segment total operating expenses increased by \$270 million in 2008 when compared to 2007. Total operating expenses adjusted to exclude the net-cash settlement feature increased by \$294 million to promote, acquire, support and retain the 10% and 9% year-over-year growth in the subscriber base and Network revenue, respectively.

- Equipment sales expenses increased by \$64 million in 2008 when compared to 2007. Higher combined gross subscriber additions and retention volumes, including smartphone activity, were partially offset by lower smartphone per-unit costs and sales of the Koodo service.
- Network operating expenses increased by \$89 million in 2008 when compared to 2007. In addition to supporting the larger subscriber base, the increase was principally in support of the 55% growth in data revenues and was primarily volume in nature, as increased usage and smartphone adoption drove increases in roaming costs, revenue share to third parties and licensing costs to service providers.
- Marketing expenses increased by \$31 million in 2008 when compared to 2007. The increase was primarily due to higher advertising in support of the 15% increase in gross subscriber additions, the introduction of a new brand, and the fourth quarter launch of the BlackBerry Storm, which had delayed deliveries that negatively impacted gross subscriber additions and COA.

COA per gross subscriber addition decreased by \$49 or 12% for 2008 when compared to 2007, due to the mix in gross subscriber loading towards lower variable cost channels and efficiency in marketing spend, partly offset by higher subsidies on smartphones in response to competitor pricing, and handset obsolescence inventory valuation adjustments.

Retention costs as a percentage of network revenue were 9.1% in 2008 as compared to 7.6% for 2007. The increase in retention costs was due primarily to continued handset upgrades to full-function smartphones to support data revenue growth and the continued migration of non-push-to-talk-centric Mike service clients to PCS postpaid services.

- General and administration expenses increased by \$79 million in 2008 when compared to 2007. General and administration expenses adjusted to exclude the net-cash settlement feature increased by \$103 million, due to higher costs associated with restructuring efforts, contracted labour costs to support data products and service offerings, growth in the subscriber base, expansion of Company-owned retail stores and Koodo outlets, and an increase in bad debt expense. These increases were partly offset by a reduction of year-end employee performance bonuses in the fourth quarter from below plan operational performance, as well as efficiency initiatives targeting discretionary employee-related expenses such as travel in the latter part of the year.
- Restructuring costs included several initiatives under the Company's competitive efficiency program.

EBITDA (\$ millions) and EBITDA margin (%) – wireless segment

Years ended December 31	2008	2007	Change
EBITDA	2,005	1,906	5.2%
EBITDA (as adjusted) ⁽¹⁾	2,005	1,930	3.9%
EBITDA margin	43.0	44.4	(1.4) pts
EBITDA margin (as adjusted)	43.0	45.0	(2.0) pts

(1) Excluding net-cash settlement feature expense of \$24 million in 2007.

Wireless segment EBITDA increased by \$99 million in 2008 when compared to 2007, while wireless EBITDA adjusted to exclude the net-cash settlement feature increased by \$75 million. The increase in EBITDA (as adjusted) was due to higher Network revenue offset by increased COA expenses (associated with higher gross loading), higher retention spend (continued smartphone and voice upgrades), and increased network costs related to data usage and outbound roaming activities, as well as higher general and administrative costs to support business growth.

EBITDA margin (as adjusted) decreased mainly due to lower incremental margins on growing data service adoption and higher retention expenses.

6

changes in financial position

A discussion of changes in the consolidated statements of financial position for the year ended December 31, 2008

Changes in the Consolidated statements of financial position for the year ended December 31, 2008, are as follows:

As at December 31 (\$ millions)	2008	2007	Change (\$ millions)	Change (%)	Explanation of the change
Current Assets					
Cash and temporary investments, net	4	20	(16)	(80)	See Section 7: <i>Liquidity and capital resources</i>
Short-term investments	–	42	(42)	(100)	Liquidation of short-term investments in the second quarter
Accounts receivable	966	711	255	36	Mainly due to a \$200 million reduction in proceeds from securitized accounts receivable and increases related to higher revenues and acquisitions, partly offset by a faster accounts receivable turnover (approximately 48 days versus 49 days) and increased provisions for bad debts
Income and other taxes receivable	25	121	(96)	(79)	Most jurisdictions moved into a liability position with the current income tax expense recorded in 2008
Inventories	333	243	90	37	Primarily receipt of new wireless handset models for new product launches and dealers accepting lower volumes in the fourth quarter of 2008, as well as a separate line of handsets for the new basic wireless brand
Prepaid expenses and other	220	200	20	10	Mainly an increase in deferred wireless customer activation and connection fees associated with subscriber growth
Derivative assets	10	4	6	150	Fair value adjustments to foreign exchange hedges, restricted share units and other operational hedges
Current Liabilities					
Accounts payable and accrued liabilities	1,465	1,476	(11)	(1)	Includes lower accrued payroll costs from seven fewer year-end payroll days outstanding, and a reduction in accrued employee performance bonuses, partly offset by increases from acquisitions
Income and other taxes payable	163	7	156	n.m.	Mainly due to current income tax expense booked during 2008 and income taxes payable from acquisitions, less instalments paid
Restructuring accounts payable and accrued liabilities	51	35	16	46	New obligations in 2008 exceeded payments under previous and current programs
Dividends payable	151	–	151	n.m.	Dividends payable as at December 31, 2008 were remitted on the January 2, 2009 payment date. In 2007, dividends were remitted on December 31 for the January 1, 2008 payment date
Advance billings and customer deposits	689	632	57	9	Includes an increase in billings for new enterprise customers and wireless postpaid subscriber growth, and higher wireless deferred customer activation and connection fees, net of a reduction in customer deposits
Current maturities of long-term debt	4	5	(1)	(20)	Primarily a net decrease in capital leases
Current portion of derivative liabilities	75	27	48	178	Fair value adjustments for share option, restricted share unit and operational hedges, net of options exercised or forfeited
Current portion of future income taxes	459	504	(45)	(9)	A decrease in temporary differences for current assets and liabilities, as well as changes in partnership taxable income that will be allocated in the next 12 months
Working capital⁽¹⁾	(1,499)	(1,345)	(154)	(11)	Includes dividends payable at December 31, 2008, that were paid on January 2, 2009 and income taxes payable over the next 12 months, net of reduced securitization of accounts receivable

(1) Current assets subtracting Current liabilities – an indicator of the ability to finance current operations and meet obligations as they fall due.

As at December 31 (\$ millions)	2008	2007	Change (\$ millions)	Change (%)	Explanation of the change
Capital Assets, Net	12,483	11,122	1,361	12	Includes \$882 million for AWS spectrum licences acquired in Industry Canada's 2008 auction, \$326 million for acquired software, customer contracts and related customer relationships and other capital assets, as well as capital expenditures net of depreciation and amortization. See <i>Section 5.3 Consolidated results from operations – Depreciation, Amortization of intangible assets</i> , as well as <i>Section 7.2 Cash used by investing activities</i>
Other Assets					
Deferred charges	1,513	1,318	195	15	Primarily related to pension plan funding, favourable cumulative returns on plan assets to the end of 2007 and continued amortization of transitional pension assets
Investments	42	39	3	8	Purchases, revaluations and sales of small investments, net of the value of Emergis shares purchased in the open market in December 2007 that were exchanged at the close of acquisition in January 2008, as well as the sale of a minority stake in Hostopia
Goodwill	3,564	3,168	396	13	Primarily the January 2008 acquisition of Emergis
Long-Term Debt	6,348	4,584	1,764	38	Includes the April 2008 publicly issued \$500 million, seven-year Notes, and draws of \$980 million from the 2012 credit facility, partly offset by a reduction of \$155 million in issued commercial paper. Also included is a \$436 million increase in the Canadian dollar value of the 2011 U.S. dollar Notes, which is largely offset by a lower derivative liability (see Other Long-Term Liabilities)
Other Long-Term Liabilities	1,295	1,718	(423)	(25)	Primarily changes in U.S. dollar exchange rates and a fair value adjustment of the derivative liabilities associated with 2011 U.S. dollar Notes
Future Income Taxes	1,255	1,048	207	20	An increase in temporary differences for long-term assets and liabilities, partly offset by lower tax rates being applied
Non-Controlling Interests	23	26	(3)	(12)	Payment of dividends by a subsidiary to a non-controlling interest and an increase in the Company's total effective economic interest in TELUS International Philippines Inc. from 97.4% to 100.0%, net of non-controlling interests' share of earnings
Shareholders' Equity					
Common equity	7,182	6,926	256	4	Primarily Net income of \$1,128 million, less dividends declared of \$584 million and NCIB purchases of \$280 million

7

liquidity and capital resources

A discussion of cash flow, liquidity, credit facilities and other disclosures

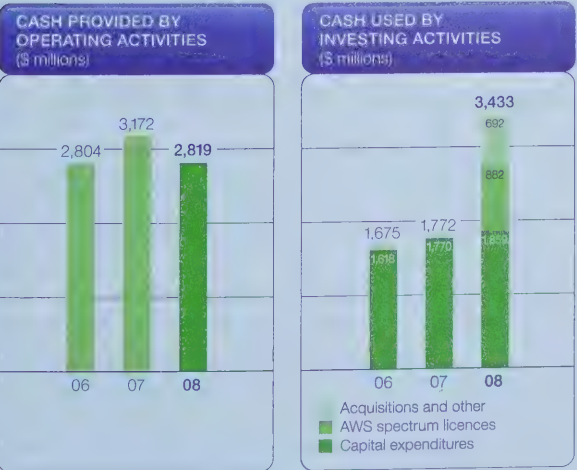
The Company's capital management strategies and financing plan results and expectations are described in *Section 4.3*. In the normal course, the Company has generated annual cash flow from operations exceeding annual capital investment needed to support business growth and re-investment in technology. In 2008, cash provided by operating activities was supplemented by financing activities as the Company made two strategic acquisitions in January (Emergis and Fastvibe) and acquired 59 spectrum licences in the AWS auction, which ended in July.

Years ended December 31 (\$ millions)	2008	2007	Change
Cash provided by operating activities	2,819	3,172	(11)%
Cash (used) by investing activities	(3,433)	(1,772)	(94)%
Cash provided (used) by financing activities	598	(1,369)	n.m.
(Decrease) increase in cash and temporary investments, net	(16)	31	–
Cash and temporary investments, net, beginning of period	20	(11)	–
Cash and temporary investments, net, end of period	4	20	(75)%

7.1 Cash provided by operating activities

Cash provided by operating activities decreased by \$353 million in 2008 when compared to 2007. Changes in 2008 include the following:

- Changes in proceeds from securitized accounts receivable (which are included in non-cash working capital changes) contributed a \$200 million reduction in cash flow for the full year. Specifically, proceeds were reduced by \$200 million in 2008, as compared to no change in 2007. Utilized proceeds from securitized accounts receivable were lower in 2008 as other sources of funding were used. See *Section 7.6 Accounts receivable sale*;
- EBITDA increased by \$190 million as described in *Section 5: Results from operations*;



- Share-based compensation expense in excess of payments decreased by \$91 million due to recording of the net-cash settlement feature expense in 2007 and lower cash outflows resulting from fewer option exercises;
- Contributions to employee defined benefit plans in excess of the net employee defined benefit plans recovery increased by \$21 million. Net contributions are expected to increase in 2009. See assumptions in *Section 1.5 Financial and operating targets for 2009*;
- Interest paid increased by \$3 million in 2008 when compared to 2007, due to higher outstanding debt in 2008, partly offset by a lower effective interest rate in 2008 and repayment of forward starting interest rate swaps in 2007;
- Interest received decreased by \$39 million due mainly to receipt of interest on income tax refunds in 2007;
- Income tax recoveries received net of instalments paid decreased by \$133 million in 2008 when compared to 2007, as a result of larger settlements of income tax-related matters in 2007; and
- Other changes in non-cash working capital, including (i) liquidation of short-term investments of \$42 million in 2008 as compared to liquidations of \$68 million in 2007, and (ii) increases in inventories, net of increases in advance billings and customer deposits in 2008.

7.2 Cash used by investing activities

Cash used by investing activities increased by \$1,661 million in 2008 when compared to 2007. The increase was due to the \$882 million payment for AWS spectrum licences, acquisitions totalling \$696 million net of acquired cash, and increased capital expenditures.

Assets under construction were \$682 million at December 31, 2008, up by \$123 million from December 31, 2007, primarily reflecting a \$110 million increase in property, plant and equipment under construction, including construction of the wireless HSPA network. Software intangible assets under construction increased by \$13 million over the year, as expenditures in 2008 for the billing platform and other systems exceeded the transfer of \$117 million to software subject to amortization resulting from implementation of the British Columbia phase of the converged wireline billing and client care platform in July.

Capital expenditures excluding AWS spectrum licences

Years ended December 31 (\$ millions)	2008	2007	Change
Wireline segment	1,311	1,219	7.5%
Wireless segment	548	551	(0.5)%
TELUS consolidated	1,859	1,770	5.0%
EBITDA (as adjusted) less capital expenditures ⁽¹⁾	1,920	1,988	(3.4)%

(1) See *Section 11.1 EBITDA* for the calculation and description.

Capital expenditures in 2008 increased by \$89 million when compared to 2007, and were in line with targeted annual expenditures of approximately \$1.9 billion.

- Wireline segment capital expenditures increased by \$92 million in 2008 when compared to 2007. The increase included investment to support high bandwidth services for business and residential customers, investment in healthcare and financial services solutions, and upfront expenditures to support new enterprise customers, partly offset by lower demand in 2008 for network access builds resulting from more moderate residential construction activity in B.C. and Alberta. Wireline cash flow (EBITDA as adjusted less capital expenditures) was \$463 million in 2008, a decrease of 24% when compared to 2007. The decrease reflects higher capital expenditure levels and lower EBITDA (as adjusted).
- Wireless segment capital expenditures decreased by \$3 million in 2008 when compared to 2007. Expenditures in 2008 were relatively flat compared to 2007, as new spending on the HSPA network build in 2008 was offset by lower expenditures for the CDMA wireless network (including the EVDO RevA data network roll-out). Wireless cash flow (EBITDA as adjusted less capital expenditures) was \$1,457 million in 2008, an increase of 6% when compared to 2007.

Payment for AWS spectrum licences

Years ended December 31 (\$ millions)	2008	2007	Change
Capital expenditures for AWS spectrum licences	882	--	--
EBITDA (as adjusted) less capital expenditures and payment for AWS spectrum licences ⁽¹⁾	1,038	1,988	(48)%

(1) See Section 11.1 EBITDA for the calculation and description.

The Company acquired 59 licences in Industry Canada's AWS spectrum auction that concluded in July for \$880 million plus auction process charges of \$2 million. The amount of successful bids was paid through a combination of drawing on credit facilities and utilization of cash on hand. Industry Canada advised the Company that it had met eligibility conditions of the AWS spectrum licences effective December 31, 2008. The licences are now classified as intangible assets with indefinite lives. In 2008, EBITDA (as adjusted) less capital expenditures and payment for the AWS spectrum licences decreased by \$950 million. Wireless cash flow in 2008, including payment for AWS spectrum, was \$575 million, down 58% from 2007.

Capital intensity⁽¹⁾

Years ended December 31 (in %)	2008	2007	Change
Capital expenditure intensity	19	20	(1) pt
Capital expenditure intensity, including payment for AWS spectrum licences in 2008	28	20	8 pts

(1) Capital intensity is the measure of capital expenditures divided by operating revenues. This measure provides a basis for comparing the level of capital expenditures to other companies of varying size within the same industry.

TELUS' capital expenditure intensity ratio in 2008, excluding payment for spectrum licences, reflects intensity levels of 25% for wireline and 12% for wireless, consistent with intensity levels of 25% and 13%, respectively, in 2007. Payment for AWS spectrum licences in 2008 temporarily increased TELUS' overall capital intensity ratio to 28% and the wireless capital intensity ratio to 31%.

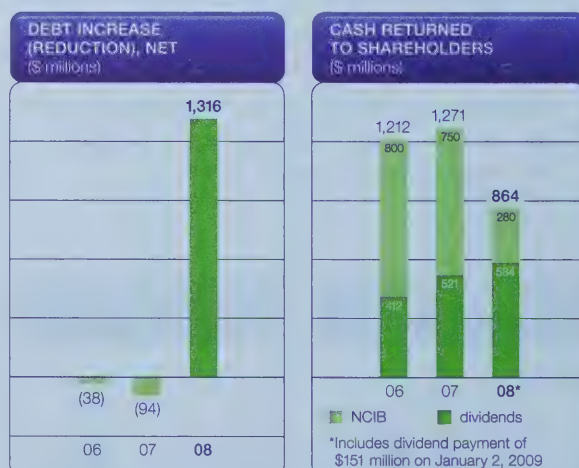
7.3 Cash provided (used) by financing activities

Net cash provided by financing activities was \$598 million in 2008.

This compares to net cash used by financing activities of \$1,369 million in 2007.

- Cash dividends paid to shareholders in 2008 were \$433 million in 2008 as compared to \$521 million in 2007. The decrease in dividend payments resulted from different remittance dates for dividends declared in the fourth quarter of 2008 and 2007. The fourth quarter dividend for 2008 was remitted on the January 2, 2009 payment date, while the fourth quarter dividend for 2007 was remitted on December 31, 2007 for the January 1, 2008 payment date. Otherwise, dividend payments in 2008 reflected higher quarterly declared dividend rates (see Section 5.2 Quarterly results summary), partly offset by lower shares outstanding from NCIB share repurchase programs.
- The Company purchased 34% of the maximum 20 million shares allowed under the fourth NCIB program that ended December 19, 2008. Purchases of shares under NCIB programs decreased by \$470 million in 2008 when compared to 2007, as fewer shares were repurchased at a lower average price.

The Company renewed its NCIB program, which has been in place since December 2004. The renewed program (Program 5) came into effect on December 23, 2008 and is set to expire on December 22, 2009. The maximum number of shares that may be purchased under Program 5 is four million Common Shares and four million Non-Voting Shares. Daily purchases under Program 5 may not exceed 462,444 Common Shares and 254,762 Non-Voting Shares until March 31, 2009, and thereafter may not exceed 231,222 Common Shares and 127,381 Non-Voting Shares. The shares are to be purchased on the Toronto Stock Exchange (TSX) and all repurchased shares will be cancelled. Investors may obtain a copy of the notice filed with the TSX without charge by contacting TELUS Investor Relations.



Shares repurchased for cancellation under normal course issuer bid programs

	Shares repurchased			Purchase cost (\$ millions)		
	Common Shares	Non-Voting Shares	Total	Charged to Share capital ⁽¹⁾	Charged to Retained earnings ⁽²⁾	Paid
2007						
Program 3 – ended December 19	2,904,900	10,571,800	13,476,700	264	480	744
Program 4 – beginning December 20	–	134,200	134,200	3	3	6
	2,904,900	10,706,000	13,610,900	267	483	750
2008						
Program 4 – ended December 19	950,300	5,810,400	6,760,700	137	143	280
Program 5 – beginning December 23	–	–	–	–	–	–
	950,300	5,810,400	6,760,700	137	143	280

(1) Represents the book value of shares repurchased.

(2) Represents the cost in excess of the book value of shares repurchased.

Long-term debt issues net of redemptions and repayments were \$1,316 million in 2008, resulting from the following:

- In April 2008, the Company publicly issued \$500 million 5.95%, Series CE Notes at a price of \$998.97 per \$1,000 of principal. The Notes mature in April 2015. The net proceeds of the offering were used for general corporate purposes, including repayment of amounts under the 2012 revolving credit facility, and to refinance short-term financing sources, which had been utilized in January for purchase of the then issued and outstanding Emergis common shares for \$743 million. The Series CE Notes require that the Company make an offer to repurchase the Notes at a price equal to 101% of their principal plus accrued and unpaid interest to the date of repurchase upon the occurrence of a change in control triggering event, as defined in the supplemental trust indenture.
- On August 6, 2008, the Board of Directors approved an increase in the authorized commercial paper program from \$800 million to \$1.2 billion.
- Amounts drawn on the 2012 bank facility increased to \$980 million at December 31, 2008 from \$nil one year earlier, while commercial paper issues decreased by \$155 million during the year.

During the first quarter of 2008, the Company increased utilization of the 2012 bank facility from \$nil to \$321 million and increased commercial paper by \$213 million for general corporate purposes, including acquisitions in January. During the second quarter of 2008, the Company reduced the amount drawn on the 2012 bank facility to \$162 million. Utilized bank facilities increased to \$430 million during the third quarter to help pay for the AWS spectrum licences. In the fourth quarter, amounts drawn on the 2012 facility increased by \$550 million, offsetting a reduction, in outstanding commercial paper. Commercial paper outstanding was \$432 million at December 31, 2008, as compared to \$968 million at September 30, \$800 million at June 30 and March 31, and \$587 million at December 31, 2007.

In comparison, debt financing activities in 2007 included the March issue of Series CC and CD Notes totalling \$1 billion, establishment of a commercial paper program in May, and repayment of approximately \$1.5 billion of matured Notes in June. These activities contributed to a lower effective interest rate in subsequent periods.

For the anticipated requirements to meet long-term debt repayments, see TELUS' 2009 financing and capital structure management plan in Section 4.3, as well as the Contractual obligations table in Section 7.8 – Commitments and contingent liabilities.

7.4 Liquidity and capital resource measures

As at or years ended December 31	2008	2007	Change
Components of debt and coverage ratios (\$ millions)⁽¹⁾			
Net debt	7,286	6,141	1,145
Total capitalization – book value	14,621	13,197	1,424
EBITDA – excluding restructuring costs	3,838	3,609	229
Net interest cost	463	440	23
Debt ratios			
Fixed-rate debt as a proportion of total indebtedness (%)	77	82	(5) pts
Average term to maturity of debt (years)	4.0	5.3	(1.3)
Net debt to total capitalization (%) ⁽¹⁾	49.8	46.5	3.3 pts
Net debt to EBITDA – excluding restructuring costs ⁽¹⁾	1.9	1.7	0.2
Coverage ratios⁽¹⁾			
Interest coverage on long-term debt	4.3	4.2	0.1
EBITDA – excluding restructuring costs interest coverage	8.3	8.2	0.1
Other measures			
Free cash flow (\$ millions) ⁽²⁾			
– based on defined benefit plans net recovery	567	1,573	(1,006)
– based on defined benefit plans contributions	361	1,388	(1,027)
Dividend payout ratio of sustainable net earnings guideline – 45 to 55% ⁽¹⁾			
Dividend payout ratio – actual earnings (%)	54	47	7 pts
Dividend payout ratio – actual earnings excluding income tax-related adjustments and net-cash settlement feature (%)	56	54	2 pts

(1) See Section 11.4 Definitions of liquidity and capital resource measures.

(2) See Section 11.2 Free cash flow for the definitions.

Net debt at December 31, 2008 increased from one year earlier mainly due to the \$500 million debt issue in April 2008, \$980 million drawn on the 2012 credit facility and a reduction of \$16 million in the cash balance, net of a \$200 million decrease in proceeds from securitized accounts receivable and a reduction of \$155 million in the amounts of commercial paper issued. The net increase in debt supported payment of \$882 million for AWS spectrum licences in the third quarter and \$692 million (net of acquired cash) for January acquisitions. Total capitalization increased because of higher net debt and retained earnings, partly offset by lower share capital due to share repurchases.

The average term to maturity of debt of four years at December 31, 2008 decreased from 5.3 years at December 31, 2007 due to the larger amounts drawn against the 2012 credit facility, partly offset by the issuance in April 2008 of \$500 million Series CE, seven-year Notes and lower amounts of commercial paper issued. The proportion of debt on a fixed-rate basis decreased mainly due to amounts drawn against the 2012 credit facility, partly offset by a decrease in proceeds from securitized accounts receivable and the April 2008 seven-year Note issue and lower amounts of commercial paper issued.

The interest coverage on long-term debt ratio was 4.3 for 2008, reflecting an increase of 0.1 from 2007 (+0.2 from higher income before income taxes and long-term interest, net of -0.1 from increased long-term interest). The EBITDA interest coverage ratio of 8.3 for 2008 reflected an increase of 0.1 from 2007 (+0.5 from higher EBITDA before restructuring, net of -0.4 from higher net interest costs).

Free cash flow for 2008, calculated using the net defined benefit plans recovery as reported previously, decreased by \$1,006 million when compared to one year earlier, largely due to the \$882 million payment for AWS spectrum licences and higher capital expenditures, as well as lower income tax recoveries and interest income, partly offset by higher EBITDA after share-based compensation and restructuring payments. Prospectively, the Company has chosen to present free cash flow adjusted for funding of defined benefit plans, as the funding requirements are largely non-discretionary and calculated independently of the net defined benefit plans recovery reflected in the calculation previously. Free cash flow for 2008, based on defined benefit plans contributions, decreased by an additional \$21 million.

The Company's strategy is to maintain the financial policies and guidelines set out below. The Company believes that these measures are currently at the optimal level and by maintaining credit ratings in the range of BBB+ to A-, or the equivalent, provide reasonable access to capital markets.

TELUS' long-term financial guidelines and policies are:

- **Net debt to EBITDA – excluding restructuring costs of 1.5 to 2.0 times**
The ratio for 2008 was 1.9 times, an increase of 0.2 from 2007, as higher net debt was partly offset by improved EBITDA before restructuring costs.
- **Dividend payout ratio of 45 to 55% of sustainable net earnings**
The target guideline for the annual dividend payout ratio is on a prospective basis, rather than on a trailing basis, and is 45 to 55% of sustainable net earnings. The ratios based on actual earnings for 2008 and 2007 were 54% and 47%, respectively. The ratio calculated to exclude income tax-related adjustments from earnings in 2008 was 56%. The comparable ratio for 2007, also excluding the net-cash settlement feature expense, was 54%.

7.5 Credit facilities

On March 3, 2008, TELUS Corporation closed a new \$700 million, 364-day credit facility with a select group of Canadian banks. On December 15, the Company renewed this credit facility, extending the term to March 1, 2010, under substantially the same terms and conditions, except for increased cost. This new facility provides incremental liquidity to TELUS and allows the Company to continue to meet one of its financial objectives, which is to generally maintain \$1 billion in available liquidity. The financial ratio tests in the new facility are substantially the same as those in the 2012 \$2 billion syndicated facility, which states that the borrower will not permit its net debt to operating cash flow ratio to exceed 4 to 1 and may not permit its operating cash flow to interest expense ratio to be less than 2 to 1, each as defined. The 364-day credit facility is unsecured and bears interest at Canadian prime and Canadian bankers' acceptance rates, plus applicable margins.

At December 31, 2008, TELUS had available liquidity of \$1.15 billion from unutilized credit facilities, as well as unutilized availability under its accounts receivable securitization program, consistent with the Company's objective of maintaining at least \$1 billion of available liquidity.

TELUS' revolving credit facilities contain customary covenants, including a requirement that TELUS not permit its consolidated Leverage Ratio (debt to trailing 12-month EBITDA) to exceed 4 to 1 (approximately 1.9 to 1 at December 31, 2008) and not permit its consolidated Coverage Ratio (EBITDA to interest expense on a trailing 12-month basis) to be less than 2 to 1 (approximately 8.3 to 1 at December 31, 2008) at the end of any financial quarter. There are certain minor differences in the calculation of the Leverage Ratio and Coverage Ratio under the credit agreements as compared with the calculation of Net debt to EBITDA and EBITDA interest coverage. Historically, the calculations have not been materially different. The covenants are not impacted by revaluation of capital assets, intangible assets and goodwill for accounting purposes. Continued access to TELUS' credit facilities is not contingent on the maintenance by TELUS of a specific credit rating.



TELUS credit facilities

At December 31, 2008 (\$ millions)	Expiry	Size	Drawn	Outstanding undrawn letters of credit	Backstop for commercial paper program	Available liquidity
Five-year revolving facility ⁽¹⁾	May 1, 2012	2,000	(980)	(201)	(432)	387
364-day revolving facility ⁽²⁾	March 1, 2010	700	—	—	—	700
Other bank facilities	—	78	(11)	(3)	—	64
Total	—	2,778	(991)	(204)	(432)	1,151

(1) Canadian dollars or U.S. dollar equivalent.
 (2) Canadian dollars only. Originally due March 2, 2009, the term of this facility was extended in December 2008.

7.6 Accounts receivable sale

TELUS Communications Inc. (TCI), a wholly owned subsidiary of TELUS, is a party to an agreement with an arm's-length securitization trust associated with a major Schedule I bank, under which TCI is able to sell an interest in certain of its trade receivables up to a maximum of \$650 million. As a result of selling the interest in certain of the trade receivables on a fully serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the

expected life of the trade receivables. A March 31, 2008 amendment resulted in the term being extended to July 17, 2009, for this revolving-period securitization agreement.

TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd. or the securitization trust may require the sale program to be wound down. The necessary credit rating was exceeded by three levels at A (low) as of February 11, 2009.

Balance of proceeds from securitized receivables

(\$ millions)	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008	Dec. 31 2007	Sept. 30 2007	June 30 2007	Mar. 31 2007
	300	250	150	500	500	550	500	150

7.7 Credit ratings

There were no changes to the Company's investment grade credit ratings in 2008. DBRS Ltd. confirmed its credit ratings and trend for TELUS and TCI on March 27, 2008, and on April 7, assigned a rating and trend of A (low), stable, to TELUS' new \$500 million 5.95%, seven-year unsecured Note issue. DBRS confirmed its rating for TELUS Corporation's commercial paper program at R-1 (low), stable, on August 7, 2008.

On April 2, Moody's Investors Service (Moody's) assigned a Baa1 rating with a stable outlook to TELUS' new debt issue, while confirming the same for TELUS' existing senior unsecured Notes. On April 3, FitchRatings assigned a BBB+ rating with a stable outlook to the new TELUS debt issue. Standard and Poor's assigned a BBB+ rating with a stable outlook to the new Series C-E Notes. On December 17, FitchRatings re-affirmed its ratings with a stable outlook.

Credit rating summary

	DBRS Ltd.	S&P	Moody's	FitchRatings
Trend or outlook	Stable	Stable	Stable	Stable
TELUS Corporation				
Notes	A (low)	BBB+	Baa1	BBB+
Commercial paper	R-1 (low)	—	—	—
TELUS Communications Inc.				
Debentures	A (low)	BBB+	—	BBB+
Medium-term notes	A (low)	BBB+	—	BBB+
First mortgage bonds	A (low)	A—	—	—

7.8 Financial instruments, commitments and contingent liabilities

Financial instruments (Note 5 of the Consolidated financial statements)

The Company's financial instruments and the nature of risks that they may be subject to are set out in the following table:

Financial instrument	Risks				
	Credit	Liquidity	Market risks		
			Currency	Interest rate	Other price
Measured at cost or amortized cost					
Cash and temporary investments	X		X	X	
Accounts receivable	X		X		
Accounts payable		X	X		
Restructuring accounts payable		X			
Short-term obligations		X		X	
Long-term debt		X	X	X	
Measured at fair value					
Short-term investments				X	X
Long-term investments					X
Foreign exchange derivatives ⁽¹⁾	X	X	X		
Share-based compensation derivatives ⁽¹⁾	X	X			X
Cross currency interest rate swap derivatives ⁽¹⁾	X	X	X	X	

(1) Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only) and sets criteria for the creditworthiness of the transaction counterparties.

Credit risk

Credit risk associated with cash and temporary investments is minimized substantially by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts receivable is minimized by the Company's large and diverse customer base, which covers substantially all consumer and business sectors in Canada. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

Counterparties to the Company's cross currency interest rate swap agreements, share-based compensation cash-settled equity forward agreements and foreign exchange derivatives are major financial institutions that have all been accorded investment grade ratings by a primary rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements and hedging items due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the non-performance of its counterparties, the Company considers the risk of this remote. The Company's derivative liabilities do not have credit-risk-related contingent features.

Liquidity risk

As a component of capital structure financial policies, discussed under *Capabilities – Section 4.3 Liquidity and capital resources*, the Company manages liquidity risk by maintaining bilateral bank facilities and syndicated credit facilities, by maintaining a commercial paper program, by the sales of trade receivables to an arm's-length securitization trust, by continuously monitoring forecast and actual cash flows and by managing maturity profiles of financial assets and financial liabilities.

The Company has significant debt maturities beginning in 2011. The Company has access to a shelf prospectus, in effect until September 2009, pursuant to which it can offer \$2.5 billion of debt or equity securities, which may be renewed and extended. The Company has credit facilities available, including a \$2 billion facility until 2012 (see *Section 7.5 Credit facilities*). The Company believes that its investment grade credit ratings provide reasonable access to capital markets.

Currency risk

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars due to certain routine revenues and operating costs being denominated in U.S. dollars, as well as sourcing some inventory purchases and capital asset acquisitions internationally. The U.S. dollar is the only foreign currency to which the Company has a significant exposure.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and currency options to fix the exchange rates on short-term U.S. dollar denominated transactions and commitments. Hedge accounting is applied to these short-term foreign currency forward contracts and currency options on an exception basis only.

The Company is also exposed to currency risks in that the fair value or future cash flows of its U.S. dollar denominated long-term debt will fluctuate because of changes in foreign exchange rates. Currency hedging relationships have been established for the related semi-annual

interest payments and principal payment at maturity, as set out in Note 18(b) of the Consolidated financial statements.

Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of temporary investments, short-term investments, short-term obligations, long-term debt and/or cross currency interest rate swap derivatives.

When the Company has temporary investments, they have short maturities and fixed rates, thus their fair value will fluctuate with changes in market interest rates; absent monetization prior to maturity, the related future cash flows do not change due to changes in market interest rates.

If the balance of short-term investments includes debt instruments and/or dividend-paying equity instruments, the Company could be exposed to interest rate risks.

As short-term obligations arising from bilateral bank facilities, which typically have variable interest rates, are rarely outstanding for periods that exceed one calendar week, interest rate risk associated with this item is not material.

In respect of the Company's currently outstanding long-term debt, other than for commercial paper and amounts drawn on its credit facility, it is all fixed-rate debt. The fair value of fixed-rate debt fluctuates with changes in market interest rates; absent early redemption and/or foreign exchange rate fluctuations, the related future cash flows do not. Due to the short maturities of commercial paper, its fair values are not materially affected by changes in market interest rates but its cash flows representing interest payments may be if the commercial paper is rolled over.

Amounts drawn on the Company's short-term and long-term credit facilities will be affected by changes in market interest rates in a manner similar to commercial paper.

Similar to fixed-rate debt, the fair value of the Company's cross currency interest rate swap derivatives fluctuates with changes in market interest rates as the interest rate swapped to is fixed; absent early redemption, the related future cash flows do not change due to changes in market interest rates.

Other price risk

If the balance of short-term investments includes equity instruments, the Company would be exposed to equity price risks. The Company is exposed to equity price risks arising from long-term investments classified as available-for-sale. Such investments are held for strategic rather than trading purposes.

The Company is exposed to other price risk arising from cash-settled share-based compensation (appreciating Common Share and Non-Voting Share prices increase both the expense and the potential cash outflow). Cash-settled equity swap agreements have been entered into that establish a cap on the Company's cost associated with its net-cash settled share options and fix the Company's cost associated with its restricted stock units.

Market risk

Net income and other comprehensive income for the year ended December 31, 2008, could have varied if the Canadian dollar to U.S. dollar foreign exchange rates, market interest rates and the Company's Non-Voting Share prices varied by reasonably possible amounts from their actual statement of financial position date values.

The sensitivity analysis of the Company's exposure to currency risk, interest rate risk, and other price risk arising from share-based compensation is shown in Note 5(g) of the Consolidated financial statements.

Fair value

The carrying value of cash and temporary investments, accounts receivable, accounts payable, restructuring accounts payable and short-term obligations approximates their fair values due to the immediate or short-term maturity of these financial instruments. The carrying values of the Company's investments accounted for using the cost method do not exceed their fair values.

The carrying value of short-term investments equals their fair value as they are classified as held for trading. The fair value is determined directly by reference to quoted market prices in active markets.

The fair values of the Company's long-term debt are based on quoted market prices in active markets. The fair values of the Company's derivative financial instruments used to manage exposure to interest

rate and currency risks are estimated based on quoted market prices in active markets for the same or similar financial instruments or on the current rates offered to the Company for financial instruments of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

The fair values of the Company's derivative financial instruments used to manage exposure to increases in compensation costs arising from certain forms of share-based compensation are based upon fair value estimates of the related cash-settled equity forward agreements provided by the counterparty to the transactions (such fair value estimates being largely based upon the Company's Common Share and Non-Voting Share prices as at the statement of financial position dates).

Commitments and contingent liabilities

Contractual obligations

The Company's known contractual obligations at December 31, 2008, are quantified in the following table. Interest obligations are included in long-term debt maturities. Long-term debt principal maturities and associated interest obligations, as at December 31, 2008, are presented separately in *Capabilities – Section 4.3 Liquidity and resources*.

(\$ millions)	Long-term debt maturities ⁽¹⁾		Other long-term liabilities ⁽²⁾⁽³⁾	Operating leases ⁽⁴⁾	Purchase obligations ⁽⁵⁾	Total
	All except capital leases	Capital leases				
2009	463	3	17	261	437	1,181
2010	540	2	30	257	50	879
2011	3,279	1	19	239	19	3,557
2012	1,891	—	20	220	16	2,147
2013	447	—	20	204	3	674
Thereafter	2,699	—	164	1,080	1	3,944
Total	9,319	6	270	2,261	526	12,382

(1) Where applicable, long-term debt maturities reflect hedged foreign exchange rates as at December 31, 2008. Interest payment cash outflows in respect of commercial paper and amounts drawn under the Company's credit facility have been calculated based on rates in effect as at December 31, 2008.

(2) Items that do not result in a future outlay of economic resources, such as deferred gains on sale-leasebacks of buildings and deferred customer activation and connection fees, have been excluded.

(3) Uncertain income tax positions that could result in current income taxes being payable have been, or will be, substantially funded over the next 12 months.

(4) Of the total minimum operating lease payments of \$2,261 million, \$2,195 million was in respect of land and buildings; approximately 60% was in respect of the Company's five largest operating leases, all of which were for office premises over various terms, with expiry dates that range between 2016 and 2026. See Note 20(b) of the Consolidated financial statements for further details on operating leases.

(5) Where applicable, purchase obligations reflect foreign exchange rates as at the current year-end, December 31, 2008. Purchase obligations include both future operating and capital expenditures that have been contracted for as at the current year-end and include the most likely estimates of prices and volumes, where necessary. As purchase obligations reflect market conditions at the time the obligation was incurred for the items being purchased, they may not be representative of future years. Obligations from personnel supply contracts and other such labour agreements have been excluded.

Price cap deferral accounts

The price cap deferral account concept was introduced by the CRTC in 2002 in *Telecom Decisions 2002-34* and *2002-43*, as discussed further in Note 20(a) of the Consolidated financial statements. From June 2002 through May 2006, the deferral account concept required the Company to defer income statement recognition of a portion of monies received in respect of residential basic services provided to non-high cost serving areas. Subsequent decisions were issued in respect of application and disposition of funds in the deferral accounts. The Company may recognize amounts in the deferral account upon undertaking qualifying actions, such as service improvement programs in qualifying non-high cost serving areas, rate reductions (including those provided to competitors), expansion of broadband services in incumbent local exchange areas to rural and remote communities, and enhancement of access to telecommunications services for individuals with disabilities. To the extent the deferral account balance exceeds approved initiatives, the remaining balance is to be distributed in the form of a one-time rebate to residential subscribers in non-high cost serving areas.

The Company must make significant estimates and assumptions in respect of the deferral account given the complexity and interpretation required of these decisions. The CRTC may, upon its periodic

review of the deferral account, disagree with management's estimates and assumptions and adjust the deferral account balance and such adjustment could be material. The CRTC ultimately decides when the deferral account is settled. An aggregate liability of \$146 million was recorded as at December 31, 2008 (2007 – \$147 million).

There have been a series of escalating court actions since the issuance of CRTC Telecom Decision 2006-9 and Telecom Decision 2008-1 and the litigants have included the Consumers Association of Canada, the National Anti-Poverty Organization, Bell Canada and the Company. The deferral account is currently the subject of appeals to the Supreme Court of Canada. The Company filed its appeal asking the Supreme Court of Canada to permit incumbent local exchange carriers to file for approval further lists of communities that would be eligible for broadband expansion from the remaining funds in the deferral account rather than rebating the remaining funds to local telephone subscribers. The Supreme Court of Canada further granted the Company a motion for a stay of CRTC Telecom Decision 2006-9 in so far as it requires a rebate to local telephone subscribers. The appeals by the Company, Bell Canada and certain consumer groups are currently scheduled to be heard by the Supreme Court of Canada in March 2009. The Company anticipates a decision on this matter in the latter half of 2009.

Guarantees (Note 20(c) of the Consolidated financial statements)

Canadian GAAP requires the disclosure of certain types of guarantees and their maximum, undiscounted amounts. As at December 31, 2008, the Company's maximum undiscounted guarantee amounts, without regard for the likelihood of having to make such payment, were not material.

In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. Other than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS' directory business, the Company agreed to bear a proportionate share of the new owner's increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company's proportionate share would have been 80% through May 2006, declining to 40% in the next five-year period and then to 15% in the final five years. Should the CRTC take any action that would result in the owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred. As at December 31, 2008, the Company has no liability recorded in respect of indemnification obligations.

Claims and lawsuits

A number of claims and lawsuits seeking damages and other relief are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation.

However, management is of the opinion, based upon legal assessment and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, other than as disclosed in Note 20(d) of the Consolidated financial statements and *Section 10.9 Litigation and legal matters*.

7.9 Outstanding share information

The table below contains a summary of the outstanding shares for each class of equity at December 31, 2008. The total number of outstanding and issuable shares is also presented, assuming full conversion of outstanding options and shares reserved for future option grants. The number of outstanding and issuable shares at January 31, 2009 was not materially different from December 31, 2008.

Outstanding shares

(millions of shares)	Common Shares	Non-Voting Shares	Total shares
Common equity			
Outstanding shares at December 31, 2008	175	143	318 ⁽¹⁾
Options outstanding and issuable ⁽²⁾ at December 31, 2008	—	15	15
	175	158	333

(1) For the purposes of calculating diluted earnings per share, the number of shares was 322 million for the year ended December 31, 2008.

(2) Assuming full conversion and ignoring exercise prices.

8

critical accounting estimates and accounting policy developments

A description of accounting estimates that are critical to determining financial results, and changes to accounting policies

8.1 Critical accounting estimates

TELUS' significant accounting policies are described in Note 1 of the Consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Management's estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's critical accounting estimates are described below and are generally discussed with the Audit Committee each quarter.

General

- Unless otherwise specified in the discussion of the specific critical accounting estimates, the Company is not aware of trends, commitments, events or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with the critical accounting estimates, subject to the items identified in the *Caution regarding forward-looking statements* section of this Management's discussion and analysis.

- In the normal course, changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions, updating of historical information used to develop the assumptions and changes in the Company's debt ratings, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimates, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or from selection of a different estimate from within a valid range of estimates.
- All critical accounting estimates are uncertain at the time of making the estimate and affect the following Consolidated statements of income line items: Income taxes (except for estimates about goodwill) and Net income. Similarly, all critical accounting estimates affect the following Consolidated statements of financial position line items: Current assets (Income and other taxes receivable); Current liabilities (Income and other taxes payable and Current portion of future income taxes); Future income tax liabilities; and Shareholders' equity (retained earnings). Generally, the discussion of each critical accounting estimate does not differ between the Company's two segments: wireline and wireless.

- The critical accounting estimates affect the Consolidated statements of income and Consolidated statements of financial position line items as follows:

Consolidated statements of financial position	Consolidated statements of income				
	Operating revenues	Operating expenses			Other expense, net
		Operations	Depreciation	Amortization of intangible assets	
Accounts receivable		X			
Inventories		X			
Capital assets and goodwill ⁽¹⁾			X	X	
Investments					X
Advance billings and customer deposits	X	X	X	X	
Employee defined benefit pension plans		X	X ⁽²⁾	X ⁽²⁾	

(1) Accounting estimate, as applicable to intangible assets with indefinite lives and goodwill, primarily affects the Company's wireless segment.
(2) Accounting estimate impact due to internal labour capitalization rates.

Accounts receivable

General

- The Company considers the business area that gave rise to the accounts receivable, performs statistical analysis of portfolio delinquency trends and performs specific account identification when determining its allowance for doubtful accounts. This information is also used in conjunction with current market-based rates of borrowing to determine the fair value of its residual cash flows arising from accounts receivable securitization. The fair value of the Company's residual cash flows arising from the accounts receivable securitization is also referred to as its retained interest.
- Assumptions underlying the allowance for doubtful accounts include portfolio delinquency trends and specific account assessments made when performing specific account identification. Assumptions underlying the determination of the fair value of residual cash flows arising from accounts receivable securitization include those developed when determining the allowance for doubtful accounts as well as the effective annual discount rate.
- These accounting estimates are in respect of the Accounts receivable line item on the Company's Consolidated statements of financial position comprising approximately 5% of total assets as at December 31, 2008 (4% as at December 31, 2007). If the future were to adversely differ from management's best estimates of the fair value of the residual cash flows and the allowance for doubtful accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge does not result in a cash outflow.

Key economic assumptions used to determine the fair value of residual cash flows arising from accounts receivable securitization

- The estimate of the Company's fair value of its retained interest could materially change from period to period due to the fair value estimate being a function of the amount of accounts receivable sold, which can vary on a monthly basis. See Note 14 of the Consolidated financial statements for further analysis.

The allowance for doubtful accounts

- The estimate of the Company's allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues, from a variance in the amount of accounts receivable sold to the securitization trust and from variances in accounts receivable collection performance.

Inventories

The allowance for inventory obsolescence

- The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, and current and future expectations with respect to product offerings.
- Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings and the expected inventory requirements and inventory composition necessary to support these future sales offerings. The estimate of the Company's allowance for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.
- This accounting estimate is in respect of the Inventory line item on the Company's Consolidated statements of financial position, which comprises approximately 2% of total assets as at December 31, 2008 (1% as at December 31, 2007). If the allowance for inventory obsolescence were inadequate, the Company could experience a charge to operations expense in the future. Such an inventory obsolescence charge does not result in a cash outflow.

Capital assets and Goodwill

General

- Capital assets and Goodwill represent approximately 65% and 19%, respectively, of TELUS' Consolidated statements of financial position, as at December 31, 2008 (proportions unchanged from December 31, 2007). If TELUS' estimated useful lives of assets were incorrect, it could experience increased or decreased charges for amortization of intangible assets or depreciation in the future. If the future were to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to materially decrease, the Company could potentially experience future material impairment charges in respect of its capital assets, including intangible assets with indefinite lives and goodwill. If intangible assets with indefinite lives were determined to have finite lives at some point in the future, the Company could experience increased charges for amortization of intangible assets. Such charges do not result in a cash outflow and of themselves would not affect the Company's immediate liquidity.

The estimated useful lives of assets; the recoverability of tangible assets

- The estimated useful lives of assets are determined by a continuing program of asset life studies. The recoverability of tangible assets is significantly impacted by the estimated useful lives of assets.
- Assumptions underlying the estimated useful lives of assets include timing of technological obsolescence, competitive pressures and future infrastructure utilization plans.

The recoverability of intangible assets with indefinite lives;

the recoverability of goodwill

- Consistent with current industry-specific valuation methods, the Company uses a discounted cash flow model combined with a market-based approach in determining the fair value of its spectrum licences and goodwill. See Note 15(c) of the Consolidated financial statements for further discussion of methodology.
- The most significant assumptions underlying the recoverability of intangible assets with indefinite lives and goodwill include: future cash flow and growth projections, including economic risk assumptions and estimates of achieving desired key operating metrics and drivers; future weighted average cost of capital; and annual earnings multiples. Significant factors impacting these assumptions include estimates of future market share, key operating metrics such as churn and ARPU, level of competition, technological developments, interest rates, market economic trends, debt levels and the cost of debt. Sensitivity testing is discussed in Note 15(c) of the Consolidated financial statements.

Investments

The recoverability of long-term investments

- The Company assesses the recoverability of its long-term investments on a regular, recurring basis. The recoverability of investments is assessed on a specific identification basis taking into consideration expectations about future performance of the investments and comparison of historical results to past expectations.
- The most significant assumptions underlying the recoverability of long-term investments are the achievement of future cash flow and operating expectations. The estimate of the Company's recoverability of long-term investments could change from period to period due to the recurring nature of the recoverability assessment and due to the nature of long-term investments (the Company does not control the investees).
- If the allowance for recoverability of long-term investments were inadequate, the Company could experience an increased charge to Other expense in the future. Such a provision for recoverability of long-term investments does not result in a cash outflow.

Income tax assets and liabilities

The amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits

- Assumptions underlying the composition of income tax assets and liabilities, including the amount of unrecognized tax benefits, are based upon an assessment of tax positions as to whether, on their technical merit, they are more likely than not of being sustained upon examination, and then an estimate of the amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with taxing authorities. Such assessments are based upon the applicable income tax legislation, regulations and interpretations, all of which in turn are subject to interpretation.

- Current income tax assets and liabilities are estimated based upon the amount of tax that is calculated as being owed to taxing authorities, net of periodic instalment payments. Future income tax liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities as well as the tax effect of undeducted tax losses. The timing of the reversal of the temporary differences is estimated and the tax rate substantively enacted for the periods of reversal is applied to the temporary differences. The carrying amounts of assets and liabilities are based upon the amounts recorded in the financial statements and are therefore subject to accounting estimates that are inherent in those balances. The tax basis of assets and liabilities as well as the amount of undeducted tax losses are based upon the assessment of tax positions and measurement of tax benefits as noted above. Assumptions as to the timing of reversal of temporary differences include expectations about the future results of operations and cash flows. The composition of income tax liabilities is reasonably likely to change from period to period because of changes in the estimation of these significant uncertainties.
- This accounting estimate is in respect of material asset and liability line items on the Company's Consolidated statements of financial position comprising less than 1% of total assets and approximately 10% of total liabilities and shareholders' equity as at December 31, 2008 (less than 1% of total assets and approximately 9% of total liabilities and shareholders' equity as at December 31, 2007). If the future were to adversely differ from management's best estimate of the likelihood of tax positions being sustained, the amount of tax benefit that is greater than 50% likely of being realized, the future results of operations, the timing of reversal of deductible temporary differences and taxable temporary differences, and the tax rates applicable to future years, the Company could experience material future income tax adjustments. Such future income tax adjustments could result in an acceleration of cash outflows at an earlier time than might otherwise be expected.

Advance billings and customer deposits

The accruals for CRTC deferral account liabilities

- The deferral account arose from the CRTC requiring the Company to defer the income statement recognition of a portion of the monies received in respect of residential basic services provided to non-high cost serving areas. This deferral requirement ended May 31, 2006. The critical estimate arises from the Company's recognition of the deferred amounts. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as service improvement programs in qualifying non-high cost serving areas, expansion of broadband services to rural and remote communities in incumbent local exchange carrier operating territories, initiatives to enhance accessibility of telecommunications services for individuals with disabilities, rate reductions (including those mandated by the CRTC in respect of discounts on Competitor Digital Network services) and/or rebates to customers. As described in Note 20(a) of the Consolidated financial statements and *Section 10.3 Regulatory – Price cap regulation*, amounts in the deferral account are currently the subject of appeals to the Supreme Court of Canada by TELUS, Bell Canada and certain consumer groups.

- Assumptions underlying the accruals for the CRTC deferral account that are uncertain at the time of making the estimate include: (i) what actions will ultimately qualify for recognition of deferred amounts; and (ii) over what period of time will qualifying deferred amounts be recognized in the Company's Consolidated statements of income. The manner in which deferred amounts are recognized, and the amounts thereof, are reasonably likely to change as such recognition is ultimately dependent upon future decisions by the CRTC and resolution of appeals to the Supreme Court of Canada.
- This accounting estimate is in respect of an item within the advance billings and customer deposits line item on TELUS' Consolidated statements of financial position and which, itself, comprises approximately 4% of total liabilities and shareholders' equity as at December 31, 2008 (4% as at December 31, 2007). If the Company's estimate of deferred amounts recognized, and the timing of the recognition thereof, were to differ materially from what the CRTC ultimately decides is allowable, revenues could be materially impacted. Such a revenue impact would not be expected to be accompanied by a corresponding impact in net cash inflows. Should the consumer groups be successful in their appeal of the use of deferral account amounts, the Company may be required to remit a one-time refund to the majority of its local residential subscriber base. As the deferral account balance was fully provided for in previous financial statements, the potential refund will not impact TELUS' subsequent income from operations. Such a refund would result in a net cash outflow, potentially offset by reduced capital investment as the Company re-addresses its intent to extend broadband services to uneconomic remote and rural communities. In the event that Bell Canada is successful in its appeal, TELUS may realize additional revenue equal to the amount of the deferral account that would otherwise have been rebated by the CRTC. Such a revenue impact would not be expected to be accompanied by a corresponding impact in net cash inflows. If TELUS is successful in its appeal, the Company expects to file for CRTC approval further lists of rural and remote communities that would be eligible for broadband expansion from the remaining funds in the deferral account.

Employee defined benefit pension plans

Certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets

- The Company reviews industry practices, trends, economic conditions and data provided by actuaries when developing assumptions used in the determination of defined benefit pension costs and accrued pension benefit obligations. Pension plan assets are generally valued using market prices, however, some assets are valued using market estimates when market prices are not readily available. Defined benefit pension costs are also affected by the quantitative methods used to determine estimated returns on pension plan assets. Actuarial support is obtained for interpolations of experience gains and losses that affect the defined benefit pension costs and accrued benefit obligations. The discount rate, which is used to determine the accrued benefit obligation, is based upon the yield on long-term, high-quality fixed term investments, and is set annually at the end of each calendar year, based upon yields on long-term corporate bond indices in consultation with actuaries.

The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by plans' target asset allocations. Future increases in compensation are based upon the current benefits policies and economic forecasts.

- Assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets include: discount rates, long-term rates of return for plan assets, market estimates and rates of future compensation increases. Material changes in overall financial performance and financial statement line items would arise from reasonably likely changes, because of revised assumptions to reflect updated historical information and updated economic conditions, in the material assumptions underlying this estimate. See Note 13(i) of the Consolidated financial statements for further analysis.
- This accounting estimate is in respect of a component of the largest operating expense line item on the Company's Consolidated statements of income. If the future were to adversely differ from management's best estimate of assumptions used in determining defined benefit pension costs, accrued benefit obligations and pension plan assets, the Company could experience future increased defined benefit pension expense. The magnitude of the immediate impact is lessened, as the excess of net actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees of the plan.

8.2 Accounting policy developments

(Note 2 of the Consolidated financial statements)

Transition to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being replaced with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) over a transitional period to be complete by 2011. TELUS will be required to report using the IFRS-IASB standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011, the date that the Company has selected for adoption.

Canada's Accounting Standards Board will phase in or transition to IFRS-IASB through a combination of three methods: (i) as current joint-convergence projects of the United States Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; (ii) standards identified by Canada's Accounting Standards Board as key or significant in which the Accounting Standards Board has undertaken a project to converge Canadian GAAP with the related IFRS prior to transition date and issued as Canadian GAAP; and (iii) standards not subject to a joint-convergence project have been exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The first two transition methods may, or will, result in the Company either having the option to, or being required to, effectively, change over certain accounting policies to IFRS-IASB prior to 2011 in the event a new standard is issued or early adoption is permitted.

The International Accounting Standards Board's work plan currently, and expectedly, has projects underway that are expected to result in new pronouncements that continue to evolve IFRS-IASB, and as a result, IFRS-IASB as at the transition date is expected to differ from its current form.

In November 2008, the United States Securities and Exchange Commission issued a proposed road map, with seven milestones, that would permit certain United States reporting issuers to use IFRS-IASB in their filings. This proposal is a significant development as it also

contemplates mandatory usage of IFRS-IASB by United States reporting issuers as early as 2014 (such a mandatory usage decision – Milestone 6 – is anticipated to be made by the United States Securities and Exchange Commission in 2011). It is not possible to currently assess the impact, if any, this proposal will have on the International Accounting Standards Board's work plan; however, Milestone 1 is a requirement for improvements in accounting standards and a subsequent consideration by the United States Securities and Exchange Commission of whether IFRS-IASB are of high quality and sufficiently comprehensive.

There are several phases that the Company will have to complete on the path to changing over to IFRS-IASB:

Implementation phase	Description and status
Initial impact assessment and scoping	This phase includes the identification of significant differences between existing Canadian GAAP and IFRS-IASB, as relevant to the Company's specific instance. Based upon the current state of IFRS-IASB, this phase was completed in the first quarter of 2008, using a diagnostic process, and identified a modest number of topics possibly impacting either the Company's financial results and/or the Company's effort necessary to change over to IFRS-IASB. This diagnostic resulted in the development of a detailed plan under which activities are being conducted. The IASB has activities currently underway which may, or will, change IFRS-IASB and such change may, or will, impact the Company. The Company will assess any such change as a component of its key elements phase.
Key elements	This phase includes identification, evaluation and selection of accounting policies necessary for the Company to change over to IFRS-IASB. As well, this phase includes other operational elements such as information technology, internal control over financial reporting and training. Currently underway are the identification, evaluation and selection of accounting policies necessary for the Company to change over to IFRS-IASB; consideration of impacts on operational elements, such as information technology and internal control over financial reporting, are integral to this process. As at December 31, 2008, approximately two-thirds of the standards that relate to TELUS have been reviewed. Targeted training and communications activities, which leveraged both internal and external resources, occurred during the current reporting period. Training has also been made available by way of an internal IFRS website dedicated to the conversion. The Company has regularly updated its Audit Committee of the Board of Directors on the status of the project, implications and expected range of impacts.
Embedding	This phase will integrate the solutions into the Company's underlying financial system and processes that are necessary for the Company to change over to IFRS-IASB.

The Company will present its results for fiscal 2010 using contemporary Canadian GAAP. In 2011, the Company will present its comparative results for fiscal 2010 using contemporary IFRS-IASB. To accomplish this, in 2010 the Company will effectively maintain two parallel books of account.

In 2009, the Company will continue to review remaining standards for application to TELUS, carry out impact assessments and provide targeted training. The Company will also make accounting policy choices and prepare its accounting systems accordingly, to enable preparation of its opening financial position under IFRS-IASB for 2010. Although its impact assessment activities are underway and progressing according to plan, continued progress is necessary before the Company can prudently increase the specificity of the disclosure of pre- and post-IFRS-IASB changeover accounting policy differences, other than as set out below:

Financial instruments – disclosure; presentation

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the existing recommendations for financial instrument disclosure were replaced with new recommendations (CICA Handbook

Section 3862); the existing recommendations for financial instrument presentation were carried forward, unchanged (as CICA Handbook Section 3863).

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for financial instrument disclosures apply to the Company. As set out in Note 5 of the Consolidated financial statements, the new recommendations result in incremental disclosures, relative to those previously required, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the statement of financial position date, and how an entity manages those risks. The transitional provisions provide that certain of the incremental disclosures need not be provided on a comparative basis in the year of adoption.

Inventories

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for accounting for inventories were replaced with new recommendations (CICA Handbook Section 3031).

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for accounting for inventories apply to the Company. The new recommendations provide more guidance on the measurement and disclosure requirements for inventories; significantly, the new recommendations allow the reversals of previous write-downs to net realizable value where there is a subsequent increase in the value of inventories. The Company's results of operations and financial position are not materially affected by the new recommendations.

Goodwill and intangible assets

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for goodwill and intangible assets and research and development costs were replaced with new recommendations (CICA Handbook Section 3064).

Commencing with the Company's 2009 fiscal year, the new recommendations of the CICA for goodwill and intangible assets will apply to the Company. The new recommendations provide extensive guidance on when expenditures qualify for recognition as intangible assets. The Company's results of operations and financial position are not expected to be materially affected by the new recommendations.

Business combinations and non-controlling interests

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for business combinations and consolidation financial statements will be replaced with new recommendations for business combinations (CICA Handbook Section 1582), consolidations (CICA Handbook Section 1601) and non-controlling interests (CICA Handbook Section 1602).

Generally, the new recommendations result in measuring business acquisitions at the fair value of the acquired business and a prospectively applied shift from a parent company conceptual view of consolidation theory (which results in the parent company recording book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording fair values attributable to non-controlling interests). Unlike the corresponding new U.S. GAAP, which requires the recognition of the fair value of goodwill attributable to non-controlling interests, both the new Canadian GAAP recommendations and IFRS-IASB allow the choice of whether or not to recognize the fair value of goodwill attributable to non-controlling interests on an acquisition-by-acquisition basis.

Measuring business acquisitions at fair value will, among other things, result in:

- acquisition costs being expensed;
- acquisition-created restructuring costs being expensed;
- contingent consideration, that is accounted for as a financial liability, being measured at fair value at the time of the acquisition with subsequent changes in its fair value being included in determining the results of operations; and
- changes in non-controlling ownership interests subsequent to the parent company's acquisition of control, and not resulting in the parent company's loss of control, being accounted for as capital transactions.

Effective January 1, 2009, the Company early adopted the new recommendations and did so in accordance with the transitional provisions; the Company would otherwise have been required to adopt the new recommendations effective January 1, 2011.

Whether the Company will be materially affected by the new recommendations will depend upon the specific facts of business combinations, if any, occurring subsequent to the Company's adoption of the new recommendations. The Company's consolidated financial statements will, however, be subject to a small number of retrospectively applied non-controlling interest-related presentation and disclosure changes:

- the Consolidated statements of financial position will recognize non-controlling interest as a separate component of shareholders' equity; and
- the Consolidated statements of income and other comprehensive income will present the allocation of net income and other comprehensive income between the Company's shareholders and non-controlling interests rather than reflecting the non-controlling interest in the results of operations as a deduction in arriving at net income and other comprehensive income.

Had these presentation and disclosures changes been applied to the Consolidated statements of income and other comprehensive income for the year ended December 31, 2008, Net income would have increased by \$3 million, as illustrated in Note 2(e) of the Consolidated financial statements.

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10: Risks and risk management*.

In 2008, the Canadian telecom industry generated estimated revenues of approximately \$40 billion, with Bell Canada and affiliated companies representing about 41% of the total. As the second largest telecommunications provider in Canada, TELUS generated \$9.7 billion in revenues in 2008, or approximately 24% of the total.

Revenue in the Canadian telecom market grew by approximately 4.4% in 2008, consistent with the mid-point of the 3.5 to 5.5% growth experienced in recent years and higher than overall GDP growth. Wireless and enhanced data continued to be the focus of increased investment and act as growth engines for the sector. Offsetting this growth was continued wireline industry weakness in voice service revenue, with declining long distance and legacy data revenues.

TELUS' continued focus on national growth in wireless, data and IP, and the impact of a stronger Western economy, were partially offset by wireline losses to cable telephony, resulting in 6.4% consolidated revenue growth. The Company expects competition in the Canadian telecommunications industry to remain intense in 2009 and 2010. One contributing factor is the re-emergence of BCE as a moderately leveraged, dividend-paying public operating company, following the December 2008 termination of its pending sale to a consortium led by the Ontario Teachers Pension Plan, which would have seen BCE become highly levered with debt and focused on maximizing short-term cash flow.

It is expected that 2009 will be a challenging year from a macro-economic perspective. The low positive growth currently forecast in Western Canada is expected to be more than offset by negative growth in Central and Eastern Canada, leading to an overall negative GDP growth forecast for the national economy. Given these and other factors, TELUS expects its revenue growth to moderate slightly in 2009 in the range of 4 to 6%.

Wireless

The wireless industry continued to experience robust growth with estimated 2008 year-over-year industry revenue and EBITDA growth of approximately 11% and 7%, respectively.

The Canadian industry continues to represent a meaningful growth opportunity, due to a national penetration rate that is lower than other developed countries because of structural and timing differences. Penetration rates in many Western European countries have surpassed 100%. Asian countries such as Korea, are approaching 95% penetration. These rates are not exactly comparable to North America due to higher-quality, lower-cost, fixed-rate local service, multiple subscriptions being possible on one GSM handset in Europe and differences in post-paid and prepaid mix. The U.S. wireless industry is more comparable to Canada, with a penetration rate of approximately 87%, a 22 percentage point difference relative to Canada, which can be attributed in part to a two-year head start in the U.S. Canada continues to grow strongly with almost 1.6 million new subscribers in 2008 and an estimated 4.6 point increase in penetration to approximately 65%, with a penetration gain of approximately 4.5 percentage points expected in 2009.

This forecast growth is supported by the view that wireless services are less likely than many other consumer expenditures to be eliminated in an economic downturn.

A key driver of wireless growth continues to be the increased adoption and usage of data services such as text and picture messaging, mobile computing, applications, gaming, ringtones, music, video downloads, mobile TV and an expanded range of commercially available smartphones. To capture this opportunity, Canadian wireless providers continue the roll-out of faster, next generation high-speed wireless networks, with TELUS committing to build a next generation wireless network in 2009 for launch by early 2010. In 2008, wireless data in Canada represented an estimated 16% of industry ARPU. This compares to approximately 38% in Asia-Pacific, 22% in Europe and 24% in the U.S., indicating an ongoing growth opportunity.

In addition to TELUS, Rogers and Bell, mobile virtual network operators such as Virgin Mobile, Videotron Ltd. and President's Choice remain active in the market. In addition, wireless incumbents have become increasingly competitive with their separately branded basic or discount service offerings. In this cost-conscious and growing market, Bell and Rogers continue to aggressively promote and price their respective Solo and Fido brand offerings. In March 2008, TELUS successfully began the launch of its Koodo Mobile branded basic service, focused on talk and text, to more effectively and efficiently compete in this market segment.

Competition in the Canadian wireless market is expected to remain intense due to continued aggressive competition from basic service offerings, and new entrant wireless service providers as a result of Industry Canada's AWS spectrum auction. The auction concluded in mid-2008, raising \$4.25 billion for the federal government, or up to three times more than initially anticipated. Consistent with TELUS' national growth strategy focused on wireless and data, the Company acquired approximately 16 MHz of spectrum across Canada for \$882 million. This further strengthened TELUS' ample spectrum position and provides capacity for the introduction of future 4G service offerings. As a result of government policy to reserve spectrum for new wireless entrants, a number of potential new entrants acquired spectrum in various regions of Canada, although no potential national provider emerged. TELUS expects to face new entrant competition beginning in late 2009 at the earliest and most likely in 2010. However, the number and long-term viability of new entrants in various markets remain uncertain because of, amongst other things, the significant amount of capital needed for build-out requirements, the high cost of the spectrum and launching new brands and services, weak capital market conditions and restrictions on foreign investment.

Long-term evolution (LTE) is quickly emerging as the global standard for 4G wireless technology. In a 2008 report prepared for the UMTS Forum, Analysys Research forecast more than 400 million LTE subscribers worldwide by 2015. To enable the optimal transition to a 4G LTE wireless network, TELUS is building a next generation wireless service based on high-speed packet access (HSPA) technology with a national service launch expected by early 2010. This enhancement of TELUS' mobile network complements the Company's existing wireless network portfolio, which includes code division multiple access (CDMA)

and Mike (iDEN) networks, providing access to a nationwide 3G high-speed EVDO network and the industry-leading Push To Talk network, respectively. The new network is expected to allow TELUS to continue providing customers with the widest choice of wireless solutions to best meet their needs.

Given TELUS' high and increasing exposure to wireless (48% of 2008 consolidated revenue), strong established brands and consistent focus on leading-edge, value-added products and profitable subscriber growth, TELUS is well positioned to benefit from ongoing growth in the Canadian wireless market.

Wireline

In contrast to wireless, expectations for the mature wireline segment are more modest. The wireline telecom landscape is expected to remain very competitive in 2009 as traditional services (such as local and long distance telephony) are expected to continue declining due to consumer migration to wireless and VoIP services. Canada's four major cable-TV companies had almost 2.6 million telephony subscribers at the end of 2008, up by close to 700,000 from 2007, or an estimated 21% consumer market share nationally. TELUS' total line losses of 3.6% in 2008 compare favourably to North American peers, partly due to growth in TELUS business lines in Central Canada mitigating residential line erosion in the Company's incumbent regions. The long distance market faces further pressure, due to continued aggressive pricing and promotion of voice packages by VoIP providers, and migration to other technologies such as e-mail.

To help alleviate the competitive challenges in the traditional wireline segment, TELUS' Future Friendly Home strategy is positioned to grow wallet share with consumers, while enhancing retention and loyalty through multiple service offerings. TELUS is continuing the roll-out of higher-speed Internet services and TELUS TV, including new products such as HD TV and PVRs, to markets in B.C., Alberta and Eastern Quebec. Notably, Internet connectivity and basic home entertainment services are viewed as fairly non-discretionary and are expected to be reasonably resilient in an economic downturn. Combined with wireline local and long distance, wireless and high-speed Internet services, TELUS is increasingly offering bundled products to achieve competitive differentiation with an integrated set of services that provides customers more freedom, flexibility and choice. At the same time, cable-TV companies have shown a greater ability to increase pricing without regulatory oversight, and are continuing to roll out higher-speed Internet services, Internet telephony and digital cable-TV services to fuel their growth.

In 2007, the federal government moved the telecommunications industry towards a more open and deregulated wireline environment by directing the CRTC to grant residential local exchange forbearance in markets with three independent facilities-based competitors that serve at least 75% of residential lines, and business forbearance in markets with two facilities-based competitors that serve at least 75% of business lines. Approvals for forbearance continued in 2008, providing TELUS and other incumbent telecom companies enhanced competitive flexibility in pricing, promotions and bundling of services. By the end of 2008, the majority of residential and business markets across Canada were forborne from regulation, and the CRTC eliminated for the incumbents the majority of retail quality-of-service indicators as well as restrictions on winback offers and promotions.

The opportunities presented by forbearance, such as bundled product offerings, are heavily contingent on TELUS implementing its new integrated billing and client care platform that consolidates multiple legacy systems. Anticipated benefits include increased customer service efficiencies – greater flexibility, differentiation, enhanced marketing

opportunities and accuracy – as well as future expense savings. TELUS has successfully converted the vast majority of consumer wireline customers in Alberta and British Columbia to the new system, and intends to convert business customers, and those outside of B.C. and Alberta, in the coming years.

In the business market, the convergence of IT and telecom, facilitated by the ubiquity of Internet protocol (IP), continues to shape competitive investments. Telecoms are providing network-centric managed applications, while IT service providers attempt to bundle network connectivity with their software as a service (SaaS) offerings. In addition, manufacturers are bringing all-IP and converged (IP plus legacy) equipment to market, enabling a steady migration to IP-based solutions. The development of IP-based platforms providing combined IP voice, data and video solutions creates cost efficiencies to compensate, in part, for margin pressures from the migration from legacy to IP-based services. At the same time, this opens new opportunities for integrated solutions that have greater business impact than traditional telecom services. TELUS is aggressively pursuing this opportunity with a series of solutions targeting specific high-value segments, including the industry verticals of healthcare, financial services, public sector and energy, as well as small and medium-sized business.

The addressable market for healthcare, for example, is approximately \$3.5 billion and is forecast to grow at 7% annually over the next several years. Recognizing this opportunity, in 2008 TELUS acquired and integrated Emergis, and placed all TELUS healthcare solution assets under the newly launched TELUS Healthcare Solutions brand. Over three years, TELUS plans to invest more than \$100 million in healthcare solutions, ranging from electronic health records management and health insurance processing to pharmacy management and home care. While the current challenging economic environment is expected to impact the business segment, it also means that many organizations will be looking for new data and IP-based solutions to support efficiency initiatives. In addition, increased infrastructure-related spending, as a result of fiscal stimulus efforts by various levels of government, will impact other sectors such as healthcare and the public sector. For instance, the January 2009 federal budget allocated \$500 million to help attain the goal of providing 50% of Canadians with an electronic health record by 2010.

The medium-sized business market, often viewed as underserved because it looks for big-business solutions at close to small-business price points, is forecast to be a sustained growth opportunity. TELUS is investing in a range of affordable solutions for this segment, including security, videoconferencing and managed hosting solutions for everything from e-mail to web applications. In the small business market, TELUS has countered increased cable-TV company competition by creating a small business solution platform called TELUS Business One®, which includes connectivity (data and voice, wireline and mobility), security, audio and video conferencing, and other IP-based tools.

Despite an expected challenging economic climate and competitive environment in 2009, TELUS believes its consistent strategic focus on providing a full suite of valuable and reliable communications services; delivering differentiated, premium national business solutions in data and IP; exposure to growth services such as wireless, data and IP including high-speed Internet and TELUS TV; and the continued enhancement of national wireless and broadband networks, solidly position TELUS for continued growth in the years ahead. At the same time, TELUS' management is particularly focused on monitoring macro-economic and regional trends in 2009 to ensure timely adjustments can be made to maintain profitability, cash flow and financial strength.

10

Risks and risk management

Risks and uncertainties facing TELUS and how the Company manages these risks

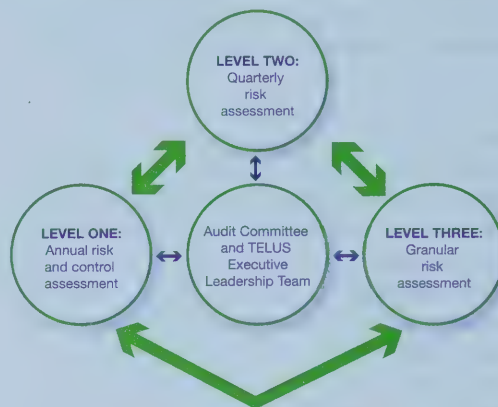
TELUS' risk and control assessment process

TELUS uses a three-level enterprise risk and control assessment process that solicits and incorporates the expertise and insight of team members from all areas of the Company. TELUS initially implemented its three-level risk and control assessment process in 2002 and tracks multi-year trends for various key risks and control environment perceptions across the organization.

TELUS' definition of business risk

TELUS defines business risk as the degree of exposure associated with the achievement of key strategic, financial, organizational and process objectives in relation to the effectiveness and efficiency of operations, the reliability of financial reporting, compliance with laws and regulations, and the safeguarding of assets within an ethical organizational culture.

TELUS' enterprise risks are largely derived from the Company's business environment and are fundamentally linked to TELUS' strategies and business objectives. TELUS strives to proactively mitigate its risk exposures through rigorous performance planning and effective and efficient business operational management. Residual exposure for



certain risks is mitigated through appropriate insurance coverage where this is judged to be efficient and commercially viable.

TELUS strives to avoid taking on undue risk exposures whenever possible and ensure alignment with business strategies, objectives, values and risk tolerances.

Enterprise risk and control assessment process

Level one

Annual risk and control assessment

Key inputs into this process include interviews with senior managers, data and updates from TELUS' ongoing strategic planning process and the results of an annual web-enabled risk and control assessment survey. The survey is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) enterprise risk management and internal control frameworks and is widely distributed to TELUS' management leadership team (all executive vice-president, vice-president and director level team members and a random sample of management). Survey responses were received from 1,642 individuals in 2008.

Additionally, TELUS' assessment process incorporates input from recent internal and external audits, as well as input from management's SOX 404 (*Sarbanes Oxley Act of 2002*) internal control over financial reporting compliance activities. Key enterprise risks are identified, defined and prioritized, and risks are classified into one of seven risk categories.

Results of the annual risk and control assessment drive the development of TELUS' annual internal audit program and are presented to senior management and the Audit Committee. Risk assessments are also incorporated back into the Company's strategic planning processes and shared with the Board.

Level two

Quarterly risk assessment review

TELUS conducts a quarterly risk assessment review with key internal stakeholders across all business units to capture and communicate the dynamically changing business risks, identify key risk mitigation activities and provide ongoing updates and assurance to the Audit Committee.

Level three

Granular risk assessments

TELUS conducts granular risk assessments for specific audit engagements and various risk management, strategic and operational initiatives (e.g. project, environmental management, safety, business continuity planning, network and IT vulnerability, and fraud and ethics risk assessments). The results of the multiple risk assessments are evaluated, prioritized, updated and integrated into the key risk profile throughout the year.

The following sections summarize the principal risks and uncertainties that could affect TELUS' future business results going forward, and TELUS' associated risk mitigation activities.

10.1 Competition

Aggressive competition may adversely affect market shares, volumes and pricing

TELUS faces intense competition across all key business lines and market segments, including consumer, small and medium-sized businesses (SMB), and the large enterprise market.

Technological advances have blurred the traditional boundaries between broadcasting, Internet and telecommunications. Cable-TV companies continue to expand offerings of basic voice and enhanced phone services resulting in intensified competition in the residential and certain SMB, local access, long distance and high-speed Internet access (HSIA) markets. Furthermore, as a result of the recent AWS spectrum auction, TELUS expects to face new wireless competition in the future from new carriers, including cable-TV operators. Overall, industry pricing pressure and customer acquisition efforts have intensified across most product and service categories and market segments, and this is expected to continue in the face of economic uncertainty.

Risk mitigation, general: Recent Canadian Radio-television and Telecommunications Commission (CRTC) decisions approving wireline deregulation have provided TELUS with improved flexibility to respond to intensifying competition (see *Section 10.3 Regulatory*). Active monitoring of competitive developments in product and geographic markets enables TELUS to rapidly respond to competitor offers and leverage the Company's full suite of integrated solutions and national reach. TELUS continues to expand its TELUS TV offering in its incumbent territories in order to provide a premium television experience and enhance its bundles to better address customer needs and respond to cable-TV offerings. In order to offset increasing competitive intensity and losses in its incumbent areas, TELUS continues to expand into and generate growth in non-incumbent markets in Central Canada with its business services and mobility offerings. In addition to expanding services, TELUS also continues to actively pursue the most competitive cost structure possible. With the operational integration of its wireless and wireline teams, TELUS is now better aligned across distribution channels and product and service roadmaps, and can provide more integrated and differentiated offerings and joint account planning.

Wireline voice and data

Competition is expected to remain intense from traditional telephony, data, IP and IT service providers, as well as from new voice over Internet protocol (VoIP) focused entrants. Competitors are focusing on both business and consumer markets.

The industry transition from legacy voice infrastructure to IP telephony, and from legacy data platforms to Ethernet, IP virtual private networks (VPN), multi-protocol label switching (MPLS) IP platforms and IP-based service delivery models, continues at a robust pace. Legacy data revenues and margins continue to decline. This decline has been only partially offset by increased demand and/or increased migration of customers to IP-based platforms. IP-based solutions are also subject to downward pricing pressure, lower margins and technological evolution. Significant capital investments in wireline infrastructure will be required to facilitate this ongoing transition process for all traditional incumbent local exchange carrier (ILEC) entities including TELUS.

Wireline voice and data – Business

In the business market, price-discounted bundling of local access, wireless and advanced data and IP services has evolved to include web-based and e-commerce services, as well as other IT services and support. Non-traditional competitors such as Microsoft have

entered the telecom space through new products such as Unified Communications, which provides the ability to redirect and deliver, in real time, e-mail, voice and text messages from a variety of telecom and IT systems to the device nearest to the intended recipient. With this broader bundling of traditional telecom services with IT services, TELUS increasingly faces competition from pure Internet and information technology hardware, software and business process/consulting related companies. Cable-TV companies have begun to target the SMB market with their VoIP services. The result is that traditional and non-traditional competitors are now focused on providing a broad range of telecommunications services to the business market, particularly in the major urban areas.

Risk mitigation in the business wireline market: TELUS continues to increase its capabilities in the overall business market through a combination of strategic acquisitions and partnerships, a focus on priority vertical markets (public sector, healthcare, financial services and energy), expansion of strategic solution sets in the enterprise market, and a mass modular approach in the SMB market (including services such as TELUS Business One). Through the Emergis acquisition and launch of TELUS Health Solutions, TELUS can now leverage systems and proprietary software to extend the Company's footprint in healthcare, benefit from the investment made by government in eHealth, pursue the transformation of the Canadian Pharmacy Benefit model and cross-sell more traditional telecom products and services. TELUS is also focused on engaging in appropriate large longer-term deals that best leverage the Company's capital investments and capabilities.

Wireline voice and data – Consumer

In the consumer wireline market, cable-TV companies and other competitors encounter minimal regulation and continue to combine a mix of residential local VoIP, long distance, HSIA and, in some cases, wireless services into one bundled and/or discounted monthly rate, along with their traditional broadcast or satellite-based TV services. In addition, cable-TV companies continue to increase the speed of their HSIA offerings. To a lesser extent, other non-facilities-based competitors offer local and long distance VoIP services over the Internet and resell HSIA solutions. Erosion of TELUS' residential network access lines (NALs) is expected to continue from this competition, as well as ongoing technological and wireless substitution. Competitors are anticipated to capture a majority of the share in growth marketplace opportunities; thus, access line associated revenues, including long distance, can be expected to continue to decline. Although the HSIA market is maturing, subscriber growth is expected to continue over the next several years. With a more mature HSIA market, and the potential for higher-speed Internet offerings from competitors, TELUS may be constrained in its ability to maintain market share in its incumbent territories, because of the amount and timing of capital expenditures associated with maintaining competitive network access speeds.

Risk mitigation in the consumer wireline market: TELUS continues to expand its own broadband infrastructure, in both coverage area and increased speed of service, to enter new market segments such as video and enhance current services. TELUS has initiated a targeted neighbourhood commercial launch of TELUS TV in Edmonton, Calgary, Fort McMurray, Grande Prairie, Vancouver and Lower Mainland and Rimouski area markets, with additional serving areas in B.C., Alberta and Eastern Quebec targeted for 2009. TELUS TV helps TELUS counter the threat from the cable-TV competition in its incumbent markets, and to retain and grow revenues with a bundled offering of local and long distance telephony, HSIA, TV entertainment services and wireless.

Broadcasting

The Company offers TELUS TV in select areas of B.C., Alberta and Eastern Quebec, as noted above, and continues targeted roll-outs to new areas in order to generate new revenues and gain the ability to create new service bundles for enhanced competitiveness and customer retention. TELUS TV is an IP-based, fully digital TV service offering more than 200 broadcast TV channels, Pay Per View, personal video recorder (PVR) and Video on Demand services similar to those offered by direct competitors Shaw Cable, StarChoice and Bell TV. TELUS also offers HD capability in select areas through the deployment of ADSL2+ technology. Though still at an early stage of roll-out, TELUS expects its HD TV service to increase penetration in 2009 as additional ADSL2+ build-outs expand TELUS' addressable market. While IP TV provides significant interactivity and customization advantages relative to both cable and satellite, there can be no assurance that TELUS TV will be successful in achieving its plans of obtaining a sizable share of the TV services market or that implementation costs or projected revenues for TELUS' television service will be as planned. TELUS will continue to monitor the situation and may explore alternative distribution channels for entertainment services.

Risk mitigation: IP TV provides TELUS with unique competitive advantages relative to analog cable-TV, such as time shifted programming flexibility, on-screen caller ID, limited web-surfing and an all-digital, broad selection of channels. TELUS TV also provides the Company with the ability to offer customers a bundled product, incorporating local and long distance telephony, HSPA, TV and wireless services. However, IP TV is still at a relatively early stage of development and adoption. Per-unit capital and operating costs are expected to decline with technological advances and as TELUS increases scale. Additionally, TELUS continues to explore other options for enhancing its service bundles relative to its TV-focused competitors.

Wireless

Competition in the Canadian wireless market intensified with the launch of wireless number portability (WNP) in March 2007, and the proliferation and promotion of additional discount brands. WNP removed a barrier to switching providers for many wireless subscribers, and the addition of new brands has all carriers actively introducing price promotions to attract new customers from other carriers and retain their customer base. TELUS has experienced modestly higher churn rates since the introduction of WNP. The initial post-WNP phase of pent-up demand to switch has subsided, but churn rates may be permanently higher in the future.

The AWS spectrum auction in May 2008 resulted in eight new competitors conditionally acquiring spectrum in separate and overlapping regions, collectively covering most markets in Canada. New entrants are expected to begin offering services in late 2009, but may face further delays because of the currently challenged financing environment. (See *Section 10.3 Regulatory*.) To win market share, strategies of potential competitors are expected to include price discounting relative to incumbents and increased competition at the distribution level. TELUS expects that competition from new entrants will put additional pressures on margins. However, with its robust wireless networks, including a new high-speed packet access (HSPA) network being built under a network sharing agreement, and a new basic brand and service, TELUS expects to be well-positioned to respond to the arrival of these new entrants.

To compete more effectively in serving various customer segments, TELUS launched a basic brand and service called Koodo Mobile

in March 2008. Koodo Mobile has been successful to date, positively affecting subscriber loading. TELUS anticipates average revenue per subscriber unit (ARPU), cost of acquisition (COA) and cost of retention (COR) pressures as competitors increase subsidies for handsets, particularly for smartphones, lower airtime and wireless data prices and offer other incentives to attract new customers. As Canadian wireless penetration increases, industry net loading is expected to shift towards value brands and prepaid products.

Wireless competition has also intensified due to an increased emphasis on multi-product bundles and new data plans. This emphasis could pressure TELUS' ARPU and increase its churn and COA. TELUS' Mike Push To Talk (PTT) service also faces increasing competition, due primarily to the emergence of e-mail and wireless data products as a substitute for the dispatch and fleet management applications of Mike PTT.

In October 2008, TELUS announced its commitment to long-term evolution (LTE) as the technology for its fourth generation (4G) wireless broadband network. As an interim step, TELUS began building a national next generation wireless network based on HSPA technology with service expected to be launched by early 2010. The Company also announced it has entered into an HSPA network sharing agreement with Bell Canada. This agreement builds on and enhances an agreement signed in 2001 and is expected to enable TELUS to lower the cost, accelerate deployment on a national basis, optimize cell-site utilization, and maximize potential operating efficiencies.

Currently, TELUS operates CDMA and iDEN wireless networks. These technologies are estimated to represent less than 20% of global wireless subscribers. TELUS' global system for mobile communication (GSM) competitor, Rogers, currently enjoys advantages in breadth of handset selection, earlier availability of certain devices and lower handset costs. With TELUS' announced HSPA build, these advantages may decrease beginning in early 2010.

Competition from adjunct wireless technologies may increase

While adjunct wireless technologies, like fixed WiMax and Wi-Fi (wireless fidelity), are continuing to develop, their associated economic viability remains unproven. Regardless, increased competition is expected through the use of licensed and/or unlicensed spectrum to deliver higher-speed data services. At the end of November 2008, Industry Canada granted a licence to Craig Wireless to move its fixed service in Vancouver to mobile, consistent with this policy. Look Communications announced that it was looking to sell similar spectrum in Ontario and Quebec. These technologies offer portable data capabilities that can overlap in some instances with mobile 3G such as EVDO. (See *Section 10.2 Technology*.) TELUS considers this Craig Wireless licence change to be a sign that the 2.5/2.6 GHz band may increase competitive intensity in the mobile market.

Certain non-traditional telecom players, such as municipalities, may contemplate launching fixed wireless ventures in urban and suburban locations, as has been the case in the United States. Though many municipal Wi-Fi network initiatives have failed to gain meaningful share in the marketplace, there can be no assurance that new or existing services offered by TELUS will be competitive with such fixed wireless services or will be available on time, or that TELUS will be able to charge incrementally for the services.

Risk mitigation in wireless markets: TELUS launched its basic brand, Koodo, to compete with other basic brands and gain market share in Canada. TELUS has a strong premium brand, a robust EVDO network and an expected national HSPA footprint by early 2010 to respond

to increasing competition. TELUS intends to continue the marketing and distribution of innovative and differentiated wireless services; investing in its extensive network; evolving technologies when deemed prudent; and acquiring spectrum, as appropriate, to facilitate service development and profitable expansion of the Company's subscriber base. In the May 2008 AWS auction, TELUS acquired sufficient spectrum assets to support long-term growth. TELUS continues to monitor wireless technology developments and takes a proactive approach to product testing and development.

10.2 Technology

Technology is a key enabler for TELUS and its customers, however, technology evolution brings risks, uncertainties and opportunities. TELUS is vigorous in maintaining its short-term and long-term technology strategy to optimize the Company's selection and timely use of technology, while minimizing the associated costs, risks and uncertainties. The following identifies the main technology risks and uncertainties and how TELUS is proactively addressing them.

Evolving wired broadband access technology standards may outpace projected access infrastructure investment lifetimes

The technology standards for broadband access over copper loops to customer premises are evolving rapidly. This evolution enables higher broadband access speeds and is fuelled by user appetite for faster connectivity, the threat of increasing competitor capabilities and offerings, and the desire of service providers like TELUS to offer new services, such as IP TV, that require greater bandwidth. In general, the evolution to higher broadband access speeds is achieved by deploying fibre further out from the central office, thus shortening the copper loop portion of the access network and using faster modem technologies on the shortened copper loop. However, new access technologies are evolving faster than the traditional investment cycle for access infrastructure. The introduction of these new technologies and the pace of adoption could result in increased requirements for capital funding not currently planned, as well as shorter estimated useful lives for certain existing infrastructure, which would increase depreciation expenses.

Risk mitigation: TELUS actively monitors the development and carrier acceptance of competing proposed FTTx standards (fibre to the Home, Curb, Pedestal or Neighbourhood). One or more of these fibre-based solutions may be a more practical technology to deploy in new greenfield neighbourhoods or multiple-dwelling units than the current copper loops. In addition, TELUS is exploring business models for the economical deployment of fibre-based technologies in areas currently connected by copper.

In 2005, TELUS began shortening copper loops using a fibre to the neighbourhood (FTTN) access architecture by deploying remote digital subscriber line access multiplexers (DSLAMs) at extended reach access (ERA) sites. At this time, TELUS is deploying ADSL2+ technology, a generation of ADSL technology that enables link rates at up to 24 megabits per second (Mbps) to the customer premises, compared with up to 8 Mbps for ADSL. ADSL2+ technology is backward-compatible with ADSL and takes advantage of TELUS' investments in ERA copper/fibre access infrastructure and in the installed base of ADSL modems. In 2008, TELUS anticipated starting the deployment of very high bit rate digital subscriber line (VDSL2) and VDSL2 bonding technologies in certain urban areas to extend the capabilities of the copper loops to at least double previous speeds, up to 80 Mbps. However, chipset delays have resulted in the delay of VDSL2 introduction until 2009.

In 2007, TELUS began partnering with developers of multiple-dwelling units (MDUs) to build future-friendly buildings. In these greenfield buildings, TELUS placed fibre to the building and deployed category 5E data cables within the building to deliver up to 100 Mbps services to customers in these buildings. In 2008, TELUS also completed field trials of FTTH technologies utilizing standards-based gigabit passive optical network (GPON) technology.

The evolution of these access architectures and corresponding standards, enabled with Quality of Service standards and network traffic engineering, all support the TELUS Future Friendly Home strategy to deliver IP-based Internet, voice and video services over a common broadband access infrastructure.

IP-based telephony as a replacement for legacy analog telephony is evolving and cost savings are uncertain

TELUS continues to monitor the evolution of IP-based telephony technologies and service offerings and is developing and testing a consumer solution for IP-based telephony over broadband access in accordance with TELUS' strategy and standards. This solution could provide additional telephone services over the same line as legacy analog telephone service or could replace the legacy analog telephone service. One of the realities of VoIP in the consumer space is that the actual state of technology developed to inter-work telephony, video and Internet access on the same broadband infrastructure is in its infancy and there are risks and uncertainties to be addressed, such as ensuring all services can be delivered simultaneously to the home (and to different devices within the home) with uncompromised quality. These issues are exacerbated when the exchange of information is between service providers with different broadband infrastructures.

A long-term technology strategy is to move all services to IP to simplify the network, reduce costs and enable advanced Future Friendly Home services. Pursuing this strategy to its full extent would involve transitioning TELUS' standard telephone service offering to IP-based telephony and phasing out legacy analog-based telephone service. To this point, TELUS' legacy voice network infrastructure could be simplified if regular analog telephone lines were discontinued in favour of digital-only broadband access lines supporting all services including telephony, Internet and video. This would, for example, allow inexpensive high-bandwidth conventional Ethernet to be used as the broadband access technology in the multiple-dwelling unit model. However, digital-only broadband access may not be feasible or economical in many areas for some time, particularly in rural and remote areas. TELUS needs to support both legacy and broadband voice systems for some time and, therefore, is expected to continue to incur costs to maintain both systems. There is a risk that investments in broadband voice may not be accompanied by decreased costs of maintaining legacy voice systems. There is also the risk that broadband access infrastructure and corresponding IP-telephony platforms may not be in place in time to avoid some re-investment in traditional switching platforms to support the legacy public switched telephone network access base in certain areas, resulting in some investment in line adaptation in non-broadband central offices.

Risk mitigation: TELUS continues to monitor and conduct trials of IP-based voice technologies to better assess their technical applicability and evolving cost profiles, as well as to determine the appropriate timing for implementation by service area in line with TELUS' commitments to the CRTC and its customers. TELUS is making investments in FTTN technologies and access technologies that enable a smoother future evolution of IP-based telephony. TELUS is also working with manufacturers to optimize the operations and cost structure of analog systems.

The convergence in a common IP-based application environment for telephony, Internet and video is complex

Traditionally the technology and systems associated with telephony, Internet and video were different from each other and provided little opportunity for common platforms for cost savings and little flexibility to integrate media, services and service development environments. The convergence in a common IP-based application environment, carried over a common IP-based network, provides opportunity for cost savings and for the rapid development of more advanced services that are more flexible and easier to use. Further, the global standards for drawing together classic wireline and wireless services into a combined architecture using an IP multimedia subsystem are being actively ratified. However, the transformation from individual traditional silo systems and architectures to a common environment is very complex.

TELUS has commercially launched an IP TV system, called TELUS TV. In 2008, TELUS launched HD TV for both broadcast and VOD content as well as PVR technologies. TELUS TV utilizes middleware designed specifically for video delivery. The middleware is designed to allow complex signalling communication between application software and system hardware in the network, and in the set-top box in the home. Given that IP TV is in an early stage of development, there are potential quality and reliability risks, and risk of obsolescence with middleware technology.

Risk mitigation: TELUS has the ability, if advantageous or necessary, to switch middleware without disruption to its TV offering in the marketplace. TELUS is also mitigating this risk through modular architectures, lab investments, partnering with system integrators where appropriate, and using hardware that is common to most other North American IP TV deployments. TELUS is striving to ensure that its IP TV deployment is part of an open framework that will fit into the overall transformation strategy once standards are ratified and the actual implementations have stabilized, particularly with the set-top box. In addition, TELUS is active in a number of standards bodies such as the MEF and IP Sphere to ensure its IP infrastructure strategy leverages standards-based functionality to further collapse and simplify the TELUS networks.

Support systems will increasingly be critical to operational efficiency

TELUS currently has a very large number of interconnected operational and business support systems, and the complexity is increasing. This is typical of incumbent telecommunications providers that support a wide variety of legacy and emerging telephony, mobility, data and video services. The development and launch of a new service typically requires significant systems development and integration. The associated developmental and ongoing operational costs are a significant factor in maintaining competitive position and profit margins. TELUS is proactive in evolving to next generation support systems. As next generation services are introduced, they should be designed to work with both legacy and next generation support systems, which introduces uncertainty with respect to the costs and effectiveness of the solutions and the evolution.

Risk mitigation: In line with industry best practice, TELUS' approach is to separate the business support systems from the operational support systems and underlying network technology. The aim is to decouple the introduction of new network technologies from the services sold to customers. This should allow TELUS to optimize network costs while limiting the impact on customer services and to facilitate the introduction of new services by removing, where possible, any development dependency on the operational support systems. In addition, TELUS is an active participant in the TeleManagement Forum that is working

to develop standard industry-defined modules in order to reduce cost through scale and increase adoption through scope. TELUS has established a next generation OSS-BSS (operations support system – business support system) framework to ensure that as new services and technologies are developed, they are part of the next generation framework to ease the retirement of legacy systems in accordance with TeleManagement Forum's Next Generation Operations Systems and Software (NGOSS) program.

Restructuring of equipment vendors may impact the services and solutions TELUS provides

TELUS has a number of relationships with equipment vendors, which are important to supplying the services and solutions TELUS provides to its retail and business customers. TELUS faces the risk that some equipment vendors may experience business difficulties, may not remain viable or may have to restructure their operations, which could impact their ability to support all of their products in future. This may negatively impact the services and solutions TELUS provides.

In January 2009, Nortel Networks filed for creditor protection, which was soon approved by the Ontario Superior Court, shielding the company from creditors and lawsuits while it attempts to restructure. Nortel has advised TELUS that it does not expect this process to impact its normal, day-to-day operations and has assured the Company that maintenance contracts in place with TELUS will continue to be supported and Nortel will continue to perform the services and support under these agreements without interruption. In addition, TELUS sells/resells Nortel solutions to its business customers and as a result may be impacted.

Risk mitigation: TELUS planned for this possibility in terms of future growth, maintenance and support of existing Nortel equipment and services. TELUS has a comprehensive contingency plan for multiple scenarios that might be realized if the situation changes, including exposure to multiple suppliers, and ongoing strong vendor relations. TELUS has selected Nokia Siemens Networks and Huawei Technologies as vendors for its next generation HSPA network build occurring in 2009 and 2010. There can be no guarantee that the outcome of the Nortel restructuring will not affect the services that TELUS provides to its customers, or that TELUS will not incur additional costs to continue providing services.

CDMA and iDEN wireless technologies may become inferior and the new HSPA network build may not go as planned

The wireless industry continues to expand the deployment of second generation (2G), third generation (3G) and emerging 4G technologies to deliver increased data speeds required for many new wireless, IP and data services. TELUS' evolution to next generation wireless technologies involves services and devices that meet the requirements of the Company's current and future subscriber base.

TELUS continues to support CDMA2000 3G wireless services on its digital CDMA PCS (personal communication services) and cellular networks. TELUS has deployed technology enabling EVDO revision A (DORa) services that were turned up in most markets in 2007. While TELUS has enjoyed commercial success with the CDMA2000-based technologies, and believes the economies of scale for CDMA2000 will continue for some time in the future, there can be no assurance that these economies of scale will continue without disruption. Further, there can be no assurance that the CDMA2000 path will continue to mature beyond DORa into capabilities that will effectively compete with the emerging UMTS/HSPA path in terms of speeds and device types.

Implementation of HSPA and 4G network technologies and systems:

TELUS and Bell Canada have previously announced a joint HSPA network build with service expected by early 2010, demonstrating TELUS' commitment to a technology path that provides an optimal transition to 4G LTE. Though this agreement builds the foundation for reducing capital and operating costs, there is no limitation on either party from building further network infrastructure to meet future and changing business requirements. Accordingly, there is the risk that TELUS' future capital expenditures may be higher than those recorded historically and expected for 2009.

In addition, the expected timing and completion of the HSPA network are subject to various risks and uncertainties, including vendor performance and delivery related to completion of the network build and sharing agreement with Bell Canada; risks of relying on Bell Canada to complete its respective HSPA network build-out on schedule; handset incompatibility with network technology; roaming revenue risk from foreign carriers; risks associated with the integration of billing and IT systems (see *Section 10.5 Process risks*); and other anticipated and unanticipated costs, expenses and risk factors relating to TELUS or affecting Bell Canada or the selected suppliers. Other risks and uncertainties include: expected benefits, efficiencies and cost savings from the new HSPA or LTE technology or related services may not be fully realized; transition of services or technology may be more difficult and/or expensive than expected; new HSPA services may lead to faster than expected transition from TELUS' existing services, causing increased COA and COR expenses; and LTE may not emerge as the worldwide 4G technology standard as expected.

While TELUS plans to leverage the HSPA economies of scale found in the family of Third Generation Partnership Project (3GPP) technologies, there can be no assurance that these economies of scale will be better or worse than past experiences with CDMA2000-based technologies.

In 2008, CDMA2000 operators Verizon, MetroPCS and Telstra announced their intentions to migrate to LTE. Similarly, many HSPA operators such as AT&T, T-Mobile Germany, Vodafone, NTT DoCoMo and China Mobile have announced their intentions to migrate to LTE. Although LTE is part of the technology evolution of a mature HSPA platform deployed by over 50 operators worldwide, some operators seeking to deploy LTE could influence the diversion of resources from HSPA development by the vendor and operator communities.

TELUS' Mike service is differentiated against current CDMA-based PTT services in Canada in that Mike's Direct Connect (iDEN PTT) has superior call set-up time and inter-call latency. With its Mike service and CDMA-based Instant Talk service, TELUS remains the Canadian leader with the largest number of subscribers using PTT. Notably, there is currently no GSM-based PTT service in the Canadian market, but there is risk that one could be introduced in the future.

Sprint-Nextel, the largest single operator of the iDEN technology, has publicly committed to improve and market the iDEN network for PTT-centric customers in the United States to 2012 and beyond. Sprint-Nextel announced that it will utilize Q-Chat technology, developed by Qualcomm, to provide future PTT services on its EVDO revision A (DORa) CDMA network in addition to its PTT services on the iDEN network. Sprint-Nextel is expected to promote interoperability between its iDEN PTT base and Q-Chat PTT service through a gateway technology once the Q-Chat service is launched. While a strong iDEN technology ecosystem has also developed at Nextel International outside of the U.S., there is no assurance that Sprint-Nextel will remain committed to iDEN technology.

Risk mitigation: As common and continual practice, TELUS optimizes capital investments to enable positive payback periods and strong flexibility to consider future technology evolutions. Certain capital investments, such as towers, leasehold improvements and power systems, are technology agnostic. TELUS has chosen to invest in HSPA to offset the risk of the uncertain long-term competitiveness of CDMA and iDEN technologies. TELUS also has a migration initiative underway to strategically move certain CDMA2000 and Mike subscribers to high-speed data capable PCS services, thereby providing the potential to increase utilization of data services and revenue stability. TELUS expects to leverage the economies of scale and handset variety with the HSPA device portfolio, while continuing to take advantage of both the CDMA and iDEN device portfolios.

By reaching an agreement with Bell Canada to jointly build out an HSPA network, TELUS is better able to manage its capital expenditures and more quickly deliver a commercial network than it could otherwise accomplish. TELUS' continued roaming/resale agreements with Bell Canada are possible because both companies have a similar mobile technology path and vendors, and an existing relationship in this arena. TELUS' continued partnership with Bell Canada is expected to provide cost savings beyond the initial network build and flexibility to invest in service differentiation.

TELUS maintains a close liaison with its network technology suppliers and operator partners to influence and benefit from developments in iDEN, CDMA and HSPA technologies. By contracting TELUS' suppliers to provide technology solutions that are amenable to future advancements like LTE, TELUS can mitigate the operational disruption during technology transitions. Fundamental to TELUS' strategy is the reuse and redeployment of application servers and network elements that are access-agnostic, such as messaging (voice and text), into the latest radio access technology such as HSPA. This enables TELUS to invest in radio-based technologies as they evolve and as required, without the need to replace these application servers.

Emerging wireless technologies represent both an opportunity and a competitive threat

Wireless technologies and protocols continue to be developed and extended for a variety of applications and circumstances, such as the Institute of Electrical and Electronics Engineers (IEEE) 802.xx suite of standards. A number of wireless technologies are capable of exploiting both licensed and unlicensed spectrum for fixed and future mobile applications. While TELUS constantly reviews and examines such developments, and may from time to time choose to utilize a number of these technologies, there can be no assurance that these developments may not adversely impact TELUS in the future.

In particular, the emergence of new WiMax and Wi-Fi networks may have a significant impact on traditional wireless services. Further, this may also trigger an accelerated incremental investment in next generation wireless infrastructures.

In recent years, TELUS and certain of its current and potential competitors have acquired, through auction, regional radio spectrum licences in the 3.5 GHz and 2.3 GHz frequency bands. This spectrum can be used for the deployment of high bandwidth wireless services utilizing fixed WiMax (802.16) wireless technology. WiMax is an emerging wide area wireless technology standard that will allow high bandwidth services that could compete with 3G wireless services. Future mobile WiMax (802.16e) service could operate in 3.5 GHz and 2.3 GHz bands, though no current licence holders have commercially deployed to date in those bands and there is no guarantee that these technologies will be commercially successful using those bands.

U.S. operator Sprint is expected to sell its WiMax business and merge it with Clearwire. Under the newly formed company, Clearwire is deploying mobile WiMax (802.16e) in the 2.5 GHz spectrum band, largely marketed to date as an alternative connectivity service. In Canada, the same 2.5 GHz spectrum band is restricted to fixed and portable services only. There is no assurance that Canadian carriers with spectrum in this band cannot use 2.5 GHz for mobility services through Industry Canada provisions or that Canadian carriers will not deploy and market WiMax wireless services more aggressively. In 2006, Industry Canada issued a policy that provides for a claw back of a portion of the 2.5 GHz band for auction when mobile service is implemented in the band. (See *Section 10.3 Regulatory*.) Inukshuk, a joint venture of Bell and Rogers with spectrum in this band, could upgrade to mobile WiMax (802.16e) once it matures to offer capabilities similar to existing 3G networks. There can be no assurance that these emerging wireless technologies will represent a greater opportunity than threat for TELUS.

Risk mitigation: TELUS proactively analyzes and tests emerging and alternative wireless access technologies to assess the opportunities and threats. In parallel, TELUS continues to invest in network upgrades that are technology-agnostic and can be levered across various access technologies, such as towers, leasehold improvements and power systems. TELUS supports global standards and the technology strategy team has executed numerous trials to gauge the benefits and costs. Emerging wireless technologies are enabled only by spectrum, whether licensed or unlicensed, provided by Industry Canada. TELUS actively engages with the governing bodies to elicit and influence the regulatory environment towards an amenable, healthy and free market framework for TELUS and the wireless industry at large.

10.3 Regulatory

Regulatory developments could have a material impact on TELUS' operating procedures, costs and revenues

TELUS' telecommunications and broadcasting services are regulated under federal legislation by the Canadian Radio-television and Telecommunications Commission (CRTC), Industry Canada and Canadian Heritage. The CRTC has taken steps to forbear from regulating prices for services offered in competitive markets, such as local residential and business services in selected exchanges, long distance and some data services, and does not regulate the pricing of wireless services. Local telecommunications services that have not been forborne are regulated by the CRTC using a price cap mechanism. Major areas of regulatory review currently include the regulatory framework for wholesale services (services provided on a mandated basis to competitors) and the utilization of the funds in the ILECs' deferral accounts.

The outcome of the regulatory reviews, proceedings and appeals discussed below and other regulatory developments could have a material impact on TELUS' operating procedures, costs and revenues.

Implementation of phase II wireless enhanced 911 (E9-1-1) services

On February 2, 2009, the CRTC issued *Telecom Policy CRTC 2009-40*, directing Canadian wireless service providers to implement wireless phase II E9-1-1 service by February 1, 2010, and ruling that wireless service providers are responsible for their own costs of implementation. Wireless phase II E9-1-1 services will automatically provide E9-1-1 call centres with more precise location information when a person calls 9-1-1 emergency services from their wireless handsets. Wireless phase II E9-1-1 services will provide the caller's location using a GPS-based system, a triangulation method using the nearest cellular towers, or a

combination thereof. The CRTC has ordered all Canadian wireless providers to implement wireless phase II E9-1-1 services in the same areas where wireline E9-1-1 services were already available by February 1, 2010 (stage 1). The CRTC is expected to issue a decision on stage 2 of phase II E9-1-1 (providing mid-call location updates) after a working group tables its recommendations later in 2009. TELUS is working to meet the requirements of this CRTC decision, but there can be no assurance that TELUS can successfully implement the first stage of wireless phase II E9-1-1 services across its entire wireless operating territory by February 1, 2010.

2008 AWS spectrum auction

In July 2008, Industry Canada completed the spectrum auction for mobile wireless services at 1.7/2.1 GHz (AWS). This auction contained favourable conditions for new entrants such as a 40 MHz spectrum set-aside and mandated roaming and tower sharing. Industry Canada outlined detailed rules surrounding the implementation of mandated roaming and tower sharing, chief among which is the imposition of arbitration to settle any disputes between new entrants and incumbents relating to roaming or tower/site sharing. TELUS expects to face new competition in the future as a result of this auction, which is expected to adversely affect the market share of existing wireless carriers. Notwithstanding, the number, geographic coverage and timing of launch of new entrants remain uncertain due to build-out costs, capital market conditions and restrictions on foreign investment.

Future availability of wireless spectrum

Industry Canada plans to auction spectrum in both the 700 MHz and 2.5/2.6 GHz bands in the 2010 to 2011 timeframe. The release of future wireless spectrum in these bands could facilitate expansion for incumbents and provide additional opportunities for new entrants to offer wireless broadband services. There is uncertainty regarding the government's timing and position in regulating these potential spectrum bands. TELUS expects a 700 MHz spectrum auction discussion paper sometime in mid- to late 2009. However, it is possible that most new spectrum will not be available for mobile purposes prior to 2011 or 2012.

Currently, spectrum at 2.5 GHz has been used for fixed wireless and fixed wireless broadcast applications. However, this spectrum band has been given a primary mobile designation by Industry Canada and is anticipated to become a common global band for mobile services. In 2006, Industry Canada issued a policy that provides for a claw back of a portion of the band for auction when mobile service is implemented within the band, and has announced that it intends to auction unassigned portions of the multipoint distribution service portion of the band. At the end of November 2008, Industry Canada granted a licence to Craig Wireless to move its fixed service in Vancouver to mobile, consistent with this policy. At the same time Look Communications announced that it was looking to sell similar spectrum in Ontario and Quebec.

TELUS expects a 2.5 GHz spectrum auction discussion paper to be announced in mid- to late 2009 and an auction to be scheduled sometime in 2010 or later.

Competitors Bell and Rogers hold significant amounts of spectrum at 2.5 GHz through their Inukshuk partnership, have deployed a fixed wireless solution in major cities including Toronto, Montreal, Calgary, Edmonton and Vancouver, and are marketing portable DSL service with moderate print and billboard campaigns. Although TELUS has experienced only limited competition from this and similar services to date, there can be no assurance that future marketing of these services will not negatively impact TELUS' wireless or wireline services.

Local forbearance

On December 14, 2006, the Governor in Council issued a direction to the CRTC to rely on market forces to the maximum extent feasible; to ensure technological and competitive neutrality and enable competition from new technologies; to use tariff approval mechanisms that are as minimally intrusive as possible; to complete a review of the framework for mandated access to wholesale services; to publish and maintain performance standards for its various processes; and to continue to explore new ways of streamlining its processes.

On April 4, 2007, the Governor in Council issued Order in Council P.C. 2007-532 and varied Decision 2006-15 by changing the criteria for local forbearance for residential and business local exchange services. Instead of requiring at least 25% market share loss in large local forbearance regions (Decision 2006-15), the Order in Council requires two independent facilities-based competitors (of which one can be a wireless service provider) capable of serving at least 75% of the residential lines for forbearance based on local exchange areas. For business local exchange service, forbearance is granted when one facilities-based competitor is able to serve at least 75% of the business lines.

The Order in Council reduced the number of quality-of-service indicators that must be met for the six-month period prior to the forbearance application. The Order in Council also removed restrictions on winbacks (i.e. delays on actions to regain customers who have changed to a competing service provider) and promotions by the incumbent telephone companies.

Since the Order in Council was issued, TELUS has obtained forbearance for about two-thirds of its incumbent local residential service lines and local business service lines in B.C., Alberta and Eastern Quebec.

As a result of the forbearance granted for local residential and business services, TELUS believes it has significantly enhanced flexibility in pricing, promotions and bundling to compete with other providers of these services. However, TELUS has no assurance that it will be able to prevent further market share loss in these markets or that it will be able to obtain forbearance in other exchanges where it is facing competition for residential and business customers.

Price cap regulation

Price cap regulation continues to apply to a basket of local services provided by ILECs. TELUS is subject to price cap regulation as an ILEC in B.C., Alberta and Eastern Quebec. On April 30, 2007, the CRTC issued Decision 2007-27 (third price cap period) and established an open-ended price cap regime.

The CRTC removed the productivity adjustment from the Residential Services in non-high cost serving areas (non-HCSA or urban) price cap basket and the Other Capped Services price cap basket. For the Competitor Services price cap basket, the CRTC reduced the productivity adjustment from inflation minus 3.5% to inflation minus 3.2%. The Commission moved residential optional local services and service bundles containing residential local exchange service to the Uncapped Services basket (no upward pricing constraints).

The CRTC capped residential service rates in urban areas at existing levels and limited annual rate increases in rural areas to the rate of inflation (to a maximum of 5%). However, the CRTC removed restrictions on rate de-averaging for residential local service and optional local services. Subsequent to the price cap decision (Decision 2007-106), the CRTC also removed restrictions on rate de-averaging for business and pay telephone services.

The CRTC incorporated a deferral account into the second price cap period to which an amount equivalent to the cumulative annual productivity adjustments for residential services in non-high cost serving areas was added. Since the CRTC removed these productivity adjustments in Decision 2007-27, the CRTC also determined that the deferral account was no longer required.

In February 2006, the CRTC determined in Decision 2006-9 that the funds accumulated in the ILEC deferral accounts would be used to expand broadband services to rural and remote communities and to improve accessibility to telecommunications services for individuals with disabilities. After receiving proposals from the ILECs in response to Decision 2006-9, the CRTC launched a further proceeding in November 2006 (Public Notice 2006-15) to further explore the ILECs' proposals.

On July 6, 2007, the CRTC issued Decision 2007-50, which partially approved TELUS' broadband expansion proposal for locations in B.C. and Eastern Quebec. TELUS is still waiting for the CRTC's final decision in this proceeding on the balance of its broadband expansion proposal and its proposals to improve accessibility to telecommunications services for individuals with disabilities.

On January 17, 2008, the CRTC issued Decision 2008-1 and approved an additional 119 communities in B.C., Alberta and Eastern Quebec for broadband expansion (subsequently reduced to 102 communities following a competitor's appeal). The CRTC also approved TELUS' proposed initiatives to enhance accessibility to telecommunications services for the disabled. The CRTC determined in Decision 2008-1 that any funds remaining in the ILEC deferral accounts after the initiatives to expand broadband services and to improve accessibility to telecommunications services for individuals with disabilities are completed will be refunded to customers.

TELUS is also waiting for three appeals to be heard by the Supreme Court of Canada on how the funds in the ILECs' deferral accounts should be treated. There is no guarantee that the ILECs will be able to proceed with their proposals for the use of deferral account funds pending the outcome of the appeals to the Supreme Court, as described in Section 7.8 under *Commitments and contingent liabilities*.

Review of certain Phase II costing issues

In Decision 2008-14, issued on February 21, 2008, the CRTC standardized many aspects of the Phase II costing methodology used by the ILECs to determine costs for regulated telecommunications services. In the first quarter of 2009, the CRTC will complete a review of the remaining components of Phase II costing not addressed in the proceeding leading to Decision 2008-14. TELUS has no assurance that the costing methodologies adopted by the CRTC will not dampen TELUS' ability to effectively market its products and services.

Essential services

In March 2008, the CRTC issued Decision 2008-17, which established a new regulatory framework for wholesale services. The CRTC revised the definition of an essential service and assigned wholesale services to six categories of services. Only one category of services will be phased out after a period of three to five years and the pricing rules for wholesale services are generally the same as in the previous regime. TELUS has no assurance that the new regulatory regime for the continued provision of essential and non-essential services to competitors will not be more onerous than the previous regime. The CRTC indicated that it will conduct another review of the regulatory framework for wholesale services after six years.

Quality-of-service monitoring

In November 2008, the CRTC issued Decision 2008-105, which eliminated the rate adjustment plan and associated rate rebates for ILECs that do not meet approved quality-of-service standards. As well, the CRTC reduced the number of quality-of-service standards indicators from 17 to three and established a process to determine the quality-of-service monitoring regime that will be used in non-forborne areas. TELUS has no assurance that the regulatory regime for quality-of-service monitoring will not be more onerous than the current regime.

TELUS' broadcasting distribution undertakings

TELUS holds licences from the CRTC to operate terrestrial broadcasting distribution undertakings to serve various communities in B.C. and Alberta (both licensed in August 2003) and Eastern Quebec (licensed in July 2005). TELUS also holds a licence to operate a national VOD undertaking (licensed in September 2003). TELUS is in the process of renewing its licences which were issued in 2003. TELUS expects to be granted renewal of these licences for another full seven-year term although there can be no assurance that this will be the case.

The CRTC has issued a revised policy for broadcasting distribution undertakings in Broadcasting Public Notice 2008-100. In this policy, the CRTC has increased contribution requirements of distribution undertakings by 1% of gross revenues. This policy also altered the framework regarding the offering of distant over-the-air television signals, which will likely make the offering of time-shifting packages more expensive. The new policy framework also provides for new flexibility for broadcasting distribution undertakings (BDUs) in packaging of Canadian and foreign programming services. These changes will take effect at the same time as the digital conversion of analog over-the-air signals in August 2011.

CRTC review of new media and Internet traffic management practices

The CRTC has initiated a proceeding to review its exemption orders regarding new media broadcasting undertakings (which dates back to 1999) and mobile television broadcasting undertakings (which was issued in 2005). The CRTC has a policy of reviewing its exemption orders every five years and so it may be considered that a review of the new media exemption order is long overdue. The CRTC has launched a public hearing (Broadcasting Notice of Public Hearing 2008-11) for this review and initial comments have been filed. Some of the proposals made in this first round of comments, which will be considered by the CRTC at the oral hearing beginning in February 2009, include mandating a contribution requirement for ISPs to create a fund to subsidize the creation of Canadian new media content and implementing incentives for the promotion of Canadian new media content on the Internet. These proposals all raise significant jurisdictional, public policy and enforcement issues for the CRTC but there can be no assurance that the CRTC will not attempt to implement some measures to benefit Canadian new media content. A decision is expected by the end of 2009.

The CRTC has also initiated a separate proceeding to investigate the traffic management practices of Canadian ISPs. This follows a decision by the CRTC denying a request to have Bell halt its traffic shaping (or throttling) on its wholesale ADSL access service. The CRTC's review of traffic management practices will include both wholesale and retail services and will discuss such issues as the growth of Internet traffic and how this has affected ISP networks and what (if any) practices might violate the unjust discrimination or control of content rules in the

Telecommunications Act. An oral hearing is scheduled for July 2009 and a decision (which may set out some broad principles or guidelines under which the Commission will review future contested network management practices) is not expected until early 2010.

Radiocommunication licences regulated by Industry Canada

All wireless communications depend on the use of radio transmissions and, therefore, require access to radio spectrum. Under the *Radiocommunication Act*, Industry Canada regulates, manages and controls the allocation of spectrum in Canada and licenses frequency bands and/or radio channels within various frequency bands to service providers and private users. Voice and data wireless communications via cellular, specialized mobile radio (SMR), enhanced specialized mobile radio and PCS systems, among others, require such licences. TELUS' PCS and cellular licences include various terms and conditions, such as: meeting Canadian ownership requirements, meeting obligations regarding coverage and build-out, spending at least 2% of certain PCS and cellular revenues on research and development, annual reporting and resale to competitors. While TELUS believes that it is substantially in compliance with its licence conditions, there can be no assurance that it will be found to comply with all licence conditions, or if found not to be compliant that a waiver will be granted, or that the costs to be incurred to achieve compliance will not be significant. Initial licence fees and annual renewal fees are payable for licences that have not been obtained via spectrum auction. There can be no assurance that Industry Canada will not seek to increase these fees in the future.

700 MHz spectrum: The U.S. had a spectrum auction for the 700 MHz spectrum in January 2008. There is speculation that Industry Canada may also initiate an auction consultation process for spectrum at 700 MHz. There is no guarantee that the Canadian government will not reserve spectrum for new entrants or that it will not adopt some open access provisions for some of this spectrum as was done in the U.S.

800 MHz re-banding: In 2004, the U.S. Federal Communications Commission (FCC) released a Report and Order adopting a plan to resolve interference to public safety radio systems in the 800 MHz band. Sprint-Nextel's iDEN system was identified as the primary contributor of this interference. The U.S. is planning to realign the band so that public safety systems would be relocated to the bottom of the 800 MHz band and Sprint-Nextel's iDEN system would operate in the upper part of the band.

In Canada, the TELUS Mike (iDEN) network also uses this same frequency spectrum. Because each site for the Mike network is analyzed and licensed individually, TELUS and Industry Canada have been able to minimize the number of public safety interference issues to a few across the country versus more than 1,500 in the U.S.

However, TELUS has an existing special co-ordination procedure (SCP), endorsed by both Industry Canada and the FCC, wherein TELUS and Sprint-Nextel utilize each other's channels within their respective iDEN networks at specific border areas across the country. These channels serve to increase the number of available channels available to both networks to better serve the area. The re-alignment threatens the continued use of the channels specified in the SCP.

While discussions with both the Canadian and U.S. regulators indicate that TELUS should be able to continue to have access to a certain number of SCP channels in the border areas, until such time as the U.S. announces its final decision, there is no assurance that TELUS will be able to continue to use these channels.

Foreign ownership restrictions

TELUS and its subsidiaries are subject to the foreign ownership restrictions imposed by the *Telecommunications Act*, the *Radiocommunication Act* and the *Broadcasting Act*. Although TELUS believes that TELUS Corporation and its subsidiaries are in compliance with the relevant legislation, there can be no assurance that a future CRTC, Industry Canada or Heritage Canada determination, or events beyond TELUS' control, will not result in TELUS ceasing to comply with the relevant legislation. If such a development were to occur, the ability of TELUS' subsidiaries to operate as Canadian carriers under the *Telecommunications Act* or to maintain, renew or secure licences under the *Radiocommunication Act* and *Broadcasting Act* could be jeopardized and TELUS' business could be materially adversely affected.

In June 2008, the Competition Policy Review Panel provided its final report to the Minister of Industry. The Panel made a number of recommendations to liberalize foreign ownership rules pertaining to the telecommunications and broadcasting sectors. TELUS anticipates that the chances for removal of foreign ownership restrictions under a minority government are low. If foreign ownership restrictions were reduced or eliminated, the risk of entry of a new telecommunications carrier that is foreign-owned or financed would be heightened.

Risk mitigation for regulatory matters: TELUS advocates a regulatory environment that relies, to the greatest extent possible, on market competition rather than regulatory intervention. TELUS believes this is in the best interest of customers. TELUS has also supported the relaxation of foreign ownership restrictions in the past, but believes that any such relaxation must be on an equal basis for all broadcasting and telecommunications companies.

10.4 Human resources

Reliance on key personnel

The success of TELUS is largely dependent on the abilities and experience of its key employees. Competition for highly skilled and entrepreneurial management and other key employees is intense in the communications industry. The loss of certain key employees, or deterioration in employee morale resulting from organizational changes, unresolved collective agreements or ongoing cost reduction, could have an adverse impact upon TELUS' growth, business and profitability. The largest contributor to this risk is the expected near-term increase in retirements by team members from Canada's post-Second World War baby boom generation.

Risk mitigation: The compensation program at TELUS is designed to support its high-performance culture and is both market-driven and performance-based. This includes medium-term and long-term performance incentives including employee performance bonuses at an individual, business unit and organizational level; share option awards, restricted stock units (RSUs) and the TELUS Employee Share Purchase Plan; and a benefits program that allows the tailoring of personal benefits choices to suit individual needs. Medium and long-term performance incentives for certain key personnel include primarily three-year vesting periods for share options and RSUs. By striving to ensure TELUS' compensation remains competitive, the Company seeks to maintain the ability to attract and retain key personnel. Recent global economic turmoil and reduced value of shares and equity portfolios may reduce the effectiveness of some retention incentives, as well as reduce employee turnover.

For 2009, the need to maintain operating margins and fund strategic growth initiatives along with current pressures in the global economy

and the capital markets led to a decision to freeze the annual management compensation review program this year. As a result, base salaries and individual target percentages for performance bonuses will remain unchanged in 2009, except in extraordinary cases. To help contain expenses further, the Company is having employees increase their share of the increased costs associated with the 2009 benefits program, such as helping fund increased long-term disability premiums, and absorbing a portion of increased inflation costs for extended health and dental plans. Through direct and upfront communication to all employees, the Company hopes to manage engagement and morale issues with respect to the compensation program. The Company will continue to focus on other factors which have a clear alignment with engagement including performance management, career opportunities, training and development and recognition. TELUS also continues to implement targeted retention solutions for employees with talents that are scarce in the marketplace.

Collective bargaining at TELUS Québec

Collective bargaining in the TELUS Québec region is expected to continue in 2009 for two small collective agreements. The first is with the Syndicat des agents de maîtrise de TELUS (SAMT) covering 20 professional and supervisory team members in Quebec that expired on March 31, 2007. The second is with the Syndicat québécois des employés de TELUS (SQET) covering approximately 1,000 trades, clerical and operator services team members that will expire on December 31, 2009. In any set of labour negotiations, there can be no assurance that the negotiated compensation expenses or changes to operating efficiency will be as planned or that reduced productivity and work disruptions will not occur during the course of collective bargaining prior to settlement. However, the SQET collective agreement does not expire until the end of 2009 and under the terms of the Canada Labour Code, no legal work stoppage can occur until after certain statutory conditions are met, including expiration of the collective agreement. Risks associated with a legal work stoppage in 2009 are considered low.

Risk mitigation: A governance model is in place to ensure the financial and operating impact of any proposed terms of settlement are assessed and determined to be aligned with TELUS' strategic direction. As is prudent in any round of collective bargaining, while negotiations proceed, any potential need to continue operations in response to work disruptions will be addressed through contingency planning.

10.5 Process risks

TELUS systems, processes and internal reorganizations could negatively impact financial results and customer service.

Systems and processes

TELUS has numerous complex systems and process change initiatives underway, including a multi-year, multi-phase development of a new billing system for the wireline segment. However, risks were reduced in 2008 with the successful implementation of the next phase of the converged billing and client care system for residential customers in B.C. For the first time, a majority of more than two million residential customers in B.C. and Alberta are supported by one integrated system. Future development and integration activities include migration of remaining B.C. and Alberta residential customers to the integrated system, strengthening the foundation and providing additional capabilities to enhance the customer and call centre agent experience. In addition, the organization will leverage components of the system to address needs in other areas of business within the Company.

There can be no assurance that the full complement of the Company's various systems and process change initiatives will be successfully implemented, or that sufficiently skilled resources will be available to complete all key initiatives planned for 2009 and beyond. For example, the successful commercial launch of the Company's HSPA service by early 2010 (see *Section 10.2 Technology*) is dependent in part on the successful implementation of new billing and IT systems. There is usually risk that some projects may be deferred or cancelled, which could negatively impact TELUS' processes and ability to effectively launch new products and services; achieve and maintain a competitive cost structure; provide competitive customer service; and deliver better information and analytics to management.

Risk mitigation: In general, TELUS strives to ensure that system development priorities are selected in an optimal manner. TELUS' project management approach includes extensive risk identification and contingency planning, scope and change control, and resource and quality management. The quality assurance of the solutions includes extensive functional, performance and revenue assurance testing, as well as capturing and utilizing lessons learned. In addition, TELUS often moves its business continuity planning and emergency management operations centre to a heightened state of readiness in advance of major systems conversions.

Large complex deals

TELUS' operating efficiency and earnings may be negatively impacted by challenges with (or ineffective) implementation of large, complex deals for enterprise customers, which may be characterized by significant upfront expenses and capital expenditures, and a need to anticipate, understand and respond to complex and multi-faceted enterprise customer specific requirements and stakeholders. There can be no assurance that service implementation will proceed as planned and expected efficiencies will be achieved, which may impact return on investment or desired margins to be realized. The Company may also be constrained by available staff, system resources and co-operation of existing service providers, which may limit the number of large contracts that can be implemented concurrently in a given period and/or increase the cost to TELUS related to such implementations.

Risk mitigation for large complex deals: TELUS has recently implemented internal reorganizations, such as one that consolidated three enabling units, Technology strategy, Network operations and Business transformation, into two integrated teams: *Technology strategy* and *Business transformation and Technology operations*. The expected future benefits include streamlined operations, more effective deployment of technologies and supporting systems, cost efficiencies, improved customer service, and better capability to implement large complex deals. TELUS follows industry standard practices for rigorous project management including executive (senior) level governance and project oversight; appropriate project resources, tools and supporting processes; and proactive project specific risk assessments and risk mitigation planning. TELUS also conducts independent project reviews and internal audits to help monitor progress and identify areas which may require additional focus, and to identify systemic issues and learnings in project implementations which may be shared between projects.

Reorganizations

Arising from its operating efficiency program, the Company carries out a number of operational consolidation, rationalization and integration initiatives each year. The initiatives are aimed at improving the Company's operating productivity and competitiveness. TELUS' estimate of restructuring costs in 2009 is approximately \$50 million to \$75 million, compared to \$59 million in 2008. There can be no assurance that all planned efficiency initiatives will be completed, or that such initiatives

will provide the expected benefits or not have a negative impact on operating and financial results and customer service.

Risk mitigation: TELUS focuses on and manages organizational changes through a formalized business transformation function by leveraging the expertise, key learnings and best practices gained from mergers, business integrations and efficiency-related reorganizations in recent years.

Foreign operations

The increase of resources in TELUS' international operations (particularly in TELUS International Philippines Inc.'s call centres in Manila, as well as the Company's newly expanded activities in the United States and other foreign jurisdictions including Panama, Guatemala, El Salvador and Barbados) presents unique risks, including country-specific risks (such as different political, legal and regulatory regimes and cultural values), lack of diversity in geographical locations, concentration of customers, different taxation regimes, infrastructure and security challenges, different exposure to and frequency of natural disasters, and the requirement for system processes that work across multiple time zones, cultures and countries. The Philippines operating costs are in pesos, while the revenues are generally in U.S. dollars, exposing TELUS to certain foreign currency risks. There is no assurance that international initiatives and risk mitigation efforts will provide the benefits and efficiencies expected, or that there will not be significant difficulties in combining the different management and cultures, which could result in a negative impact on operating and financial results.

Risk mitigation: TELUS' strategy is to improve the diversity and geographic distribution of its operations, its customers and conduct of business processing outsourcing activities. The continued expansion of international operations, as noted above, provides TELUS with more geographic diversity, spreads political risk among the foreign jurisdictions, and provides the Company an ability to serve customers in multiple languages and in multiple time zones. In the spring of 2009, TELUS expects to open a call centre in Clark County, Nevada to add on-shore Spanish-language support to its broad suite of call centre and business process outsourcing services for large corporate customers. The new call centre will complement TELUS' recent purchase of a minority share in an established call centre operation in three Central American countries. TELUS has also implemented a currency hedging program to reduce certain foreign currency exposures. In addition, the Company continues to work with its international operations to extend operational best practices, to integrate and align international and domestic Canadian operations, as appropriate, and to strive to ensure that internal controls are implemented, tested, monitored and maintained.

Integration of acquisitions

Post-merger and post-acquisition activities, such as those that followed the acquisition of Emergis and Fastvibe in January 2008, include the review and alignment of accounting policies, employee transfers and moves, information systems integration, optimization of service offerings and establishment of control over new operations. Such activities may not be conducted efficiently and effectively, negatively impacting service levels, competitive position and expected financial results.

Risk mitigation: TELUS has a team that performs a post-merger integration (PMI) function. The PMI team applies an integration model, based on learnings from numerous previous post-acquisition integrations, which enhances and accelerates the standardization of TELUS' business processes and strives to preserve the unique qualities of acquired operations. PMI begins with strategic, pre-closing analysis and planning, and continues after closing with execution of a plan. Initial plans are re-evaluated and assessed regularly, based on timely feedback received from the integration teams.

10.6 Financing and debt requirements

TELUS' business plans and growth could be negatively affected if existing financing is not sufficient to cover funding requirements

Risk factors such as disruptions in the capital markets, increased bank capitalization regulations, reduced lending in general, or a reduced number of active Canadian chartered banks as a result of reduced activity or consolidation, could reduce capital available, or increase the cost of such capital, for investment grade corporate credits such as TELUS.

Risk mitigation: TELUS may finance future capital requirements with internally generated funds as well as, from time to time, borrowings under the unutilized portion of its bank credit facility, use of securitized accounts receivable, use of commercial paper or the issuance of debt or equity securities. TELUS has access to a shelf prospectus pursuant to which it can offer \$2.5 billion of debt and equity. TELUS believes its adherence to its stated financial policies and resulting investment grade credit ratings, coupled with its efforts to maintain a constructive relationship with banks, investors and credit rating agencies, continue to provide reasonable access to capital markets.

On March 3, 2008, the Company closed a new \$700 million, 364-day credit facility with a select group of Canadian banks. This facility provides incremental liquidity to TELUS and allows the Company to continue to meet one of its financial objectives, which is to generally maintain \$1 billion in available liquidity. The Company had unutilized credit facilities of \$1.15 billion at December 31, 2008, including the 364-day facility. On December 15, 2008, TELUS reached agreement with the participating banks to extend this agreement to March 1, 2010. This extension of the credit agreement in the current difficult credit markets demonstrates TELUS' capability to finance itself in a challenging environment.

As described in *Section 7.6 Accounts receivable securitization*, TELUS Communications Inc. (TCI) entered into an agreement with an arm's-length securitization trust under which it is able to sell an interest in certain of its trade receivables up to a maximum of \$650 million. At December 31, 2008, TCI had received aggregate cash proceeds of \$300 million. TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd – currently A (low) – failing which, the Company may be required to wind down the program prior to the July 2009 termination date of the agreement. The Company has routinely extended the termination date of the agreement in the past and plans to seek an extension or establish a replacement agreement prior to the current termination date but there can be no assurance it will be successful.

Ability to refinance maturing debt

On August 6, 2008, TELUS' commercial paper program was increased from a maximum of \$800 million to a maximum of \$1.2 billion to permit increased access to low-cost funding. At December 31, 2008, TELUS had \$432 million of commercial paper issued, which will need to be refinanced on an ongoing basis to enable the cost savings relative to borrowing on the 2012 credit facility to be realized. Capital market conditions may prohibit the rolling of commercial paper at low rates.

Risk mitigation: The Company's commercial paper program is fully backstopped by the 2012 credit facility. TELUS may refinance amounts drawn on its credit facilities with longer-term maturities. At December 31, 2008, TELUS had no significant amounts of long-term debt maturing until 2011 and 2012. Consistent with past practice, TELUS may also pre-fund or refinance long-term debt prior to maturity.

TELUS could also reduce repurchase activity under its normal course issuer bid (NCIB) share repurchase plan to conserve funds for operations or servicing debt. The NCIB program annual approved maximum amount to December 2009 is eight million shares or approximately 2.5% of TELUS' outstanding shares (2008 program was for a maximum 20 million shares with 6.8 million purchased).

A reduction in TELUS credit ratings could impact TELUS' cost of capital and access to capital

TELUS' cost of capital could increase and access to capital might be affected by a reduction in TELUS' and/or TCI's credit ratings. There can be no assurance that TELUS can maintain or improve current credit ratings.

Risk mitigation: TELUS seeks to achieve, over time, debt credit ratings in the range of BBB+ to A-, or equivalent. The four credit rating agencies that rate TELUS currently have ratings that are in line with this target with a stable outlook. TELUS has financial policies in place that were established to help maintain or improve existing credit ratings. (See *Section 7.4 Liquidity and capital resource measures*.) TELUS' credit ratings were confirmed in 2008 by the four credit rating agencies that cover the Company.

Lower than expected free cash flow could constrain ability to invest in operations or make purchases under NCIB share repurchase programs

TELUS expects to generate free cash flow in 2009, which would be available to, among other things, pay dividends to shareholders and possibly repurchase shares. While anticipated cash flow is expected to be more than sufficient to meet current requirements and remain in compliance with TELUS' financial policies, these intentions could constrain TELUS' ability to invest in its operations for future growth or to complete share repurchases. TELUS has set its financial policies with the expectation that taxable income will be generated and that substantial net cash tax payments of approximately \$320 to \$350 million will commence in 2009, in respect of payments for the 2008 tax year in February 2009 and on an instalment basis for 2009. In addition, the Company expects funding of employee defined benefits plans to increase in 2009, as described in *Section 1.5*. Payment of net cash income taxes and funding of defined benefit plans in the future will reduce the after-tax cash flow otherwise available to return capital to shareholders. If actual results are different from TELUS' expectations, there can be no assurance that TELUS will not need to change its financing plans, including its intention to repurchase TELUS shares, or pay dividends according to the target payout guideline.

Risk mitigation: From December 2004 through December 2008, TELUS had sufficient cash flow to repurchase shares under five NCIB programs. See *Section 7.3 Cash used by financing activities*. As the Company begins paying cash income taxes, it may choose to not renew or to reduce the size of the NCIB share repurchase program, as warranted.

The TELUS Board reviews the dividend each quarter, based on a number of factors including a target dividend payout ratio guideline of 45 to 55% of sustainable net earnings. This review resulted in a 2.5 cent or 5.6% increase in the quarterly dividend payout rate effective with the dividend paid on January 2, 2009. Based on the beginning-of-year level of quarterly dividend and shares outstanding, dividend payments would total approximately \$600 million in 2009.

10.7 Tax matters

Income and commodity tax amounts, including tax expense, may be materially different than expected

The operations of TELUS are complex and related tax interpretations, regulations and legislation that pertain to TELUS' activities are subject to continual change. The Company collects and pays significant amounts of commodity taxes, such as provincial sales taxes and federal goods and services taxes, to various taxation authorities. The Company also has significant amounts of income taxes receivable and payable, future income tax liabilities and income tax expense. Income tax amounts are based on TELUS management's estimates, using accounting principles that recognize the benefit of income tax positions that are more likely than not of being sustained upon examination on an issue-by-issue basis. The benefit is measured at the largest amount with greater than 50% probability of being realized. The assessment of the likelihood and amount of income tax benefits, as well as the timing of realizing such amounts, can materially affect the determination of net income or cash flows in future periods. As noted in *Section 1.5 Financial and operating targets for 2009*, TELUS currently expects cash income tax payments to increase substantially in 2009, with cash income taxes, net of recoveries, of approximately \$320 to \$350 million, as the Company pays 2008 taxes in February 2009 and begins paying instalments for the 2009 tax year. The 2009 blended statutory income tax rate is expected to be 30 to 31%. These expectations can change as a result of changes in interpretations, regulations, legislation or jurisprudence.

The timing concerning the monetization or realization of future income tax accounts is uncertain, as it is dependent on future earnings of TELUS and other events. The amounts of future income tax liabilities are also uncertain, as the amounts are based upon substantively enacted future income tax rates in effect at the time, which can be changed by governments. The amount of future income tax liabilities is also based upon the Company's anticipated mix of revenues among the jurisdictions in which it operates, which is also subject to change.

The review activities of the Canada Revenue Agency and other jurisdictions' tax authorities affect the ultimate determination of the actual amounts of commodity taxes payable or receivable, income taxes payable or receivable, future income tax liabilities and income tax expense. Therefore, there can be no assurance that taxes will be payable as anticipated and/or the amount and timing of receipt or use of the tax-related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived tax issues and have increased the resources they put to these efforts.

In order to provide comprehensive solutions to primarily Canadian-based customers operating in foreign jurisdictions, the Company has entered into further arrangements for the supply of services in such foreign jurisdictions, thus exposing itself to multiple forms of taxation.

In 2008, the Company continued to further expand its activities into the United States and other foreign jurisdictions including the Philippines, Panama, Guatemala, El Salvador and Barbados. In the U.S., federal, state and local jurisdictions have created varying complex regimes for income, revenue, sales and use, and property taxes. The number and variation of such regimes in the U.S. jurisdictions where the Company has transactions causes additional financial risk to the Company.

Not only does each foreign jurisdiction have complexities with language and currency differences, each has its own taxation peculiarities

in the forms of taxation imposed, such as value-added tax, gross receipts tax or income tax, as well as its legislation and tax treaties with Canada. Furthermore, the telecommunications industry has unique issues that lead to uncertainty in the application or division of tax between domestic and foreign jurisdictions. Accordingly, TELUS' foreign expansions during 2008 have increased the Company's exposure to tax risks, from both financial and reputation perspectives.

Risk mitigation: The Company maintains an internal Taxation department composed of professionals who are trained and educated in taxation administration and who maintain an up-to-date knowledge base of new developments in the underlying Canadian law, its interpretations and jurisprudence. This team is also responsible for the specialized accounting required for income taxes and accordingly this group is charged with maintaining state-of-the-art knowledge of tax accounting developments and the implementation of such relevant measures as are required from time to time.

The transactions of the Company are under continual review by the Company's Taxation department whereby transactions of an unusual or non-recurring nature, in particular, are assessed from multiple risk-based perspectives. Tax-related transaction risks are regularly communicated to and reassessed by tax counsel as a check to initial exposure assessment. As a matter of regular practice, large and international transactions are reviewed by external tax counsel, while other third-party advisors may also be engaged to express their view as to the potential for tax exigibility. The Company has also established an enterprise-wide program to develop world-class processes and information technology to deal with the income and indirect tax consequences of its expanding foreign sales and investments. (See *Legal and regulatory compliance* in *Section 10.9 Litigation and legal matters*.) Furthermore, the Company is adding internal resources with international income and indirect tax experience to provide advice on its international sales contracts and investments.

The Company engaged external counsel and advisors as appropriate to provide advice and to comply with tax laws in the jurisdictions outside of Canada in which it has operations of any significance. The advice and returns provided by such advisors and counsel are reviewed for reasonableness by TELUS' Taxation team.

10.8 Health, safety and environment

Team member health, wellness and safety

Lost work time, resulting from the illness or injury of TELUS team members, can negatively impact organizational productivity and employee benefit healthcare costs.

Risk mitigation: To minimize absences in the workplace, TELUS supports a holistic and proactive approach to team member health by providing comprehensive wellness, disability, ergonomic and employee assistance programs. To promote safe work practices, the Company has long-standing training and orientation programs for team members, contractors and suppliers who access TELUS facilities. However, there can be no assurance that these health and safety programs and practices will be effective in all situations.

Radio frequency emission concerns

Some studies and various media reports have asserted that radio frequency emissions from wireless handsets may be linked to certain adverse health effects. There can be no assurance that future health studies, government regulations or public concerns about the health effects of radio frequency emissions will not have an adverse effect on the business and prospects for TELUS. For example, public concerns

could reduce subscriber growth and usage, and increase costs as a result of modifying handsets, relocating wireless towers, and addressing incremental legal requirements and product liability lawsuits. TELUS continues to monitor developments in this area.

Risk mitigation: Evidence in the scientific community, as determined and published in numerous studies worldwide, supports the conclusion that there is no demonstrated public health risk associated with the use of wireless phones. These include a study published in the Journal of the National Cancer Institute in 2006, involving 420,000 cell phone users in Denmark. This study found that cell phone users are no more likely than anyone else to suffer a range of cancer types. Government agencies in Canada responsible for establishing safe limits for signal levels of radio devices also support the conclusion that wireless telephones are not a health risk. TELUS believes that the handsets it sells comply with all applicable Canadian and U.S. government safety standards.

Responsible driving

Research has shown an increase in distraction levels for drivers using wireless phones while driving. Three Canadian provinces, Quebec, Nova Scotia, and Newfoundland and Labrador, have legislated bans on the use of handheld mobile phones while driving, but these provinces do allow the use of hands-free wireless kits. Comparable legislation is pending in Ontario and similar bans exist in parts of the United States and in other parts of the world. There can be no assurance that additional laws against using mobile phones or hands-free devices while driving will not be passed and that, if passed, such laws will not have a negative effect on subscriber growth rates, usage levels or wireless revenues.

Risk mitigation: TELUS promotes responsible driving and recommends that driving safely should be every wireless customer's first responsibility. TELUS believes that existing laws adequately address the matter.

Concerns related to contaminated property and the associated risk to human health or wildlife

To conduct business operations, TELUS owns or leases a large number of properties. The presence of fuel systems for back-up power generation enables the provision of reliable service, but also poses the most significant environmental risk for the Company. Spills or releases of fuel from these systems have occurred occasionally, with the maximum cost incurred at any site being approximately \$1 million. In the telecommunications industry, small volumes of hazardous chemicals are commonly used at many sites. As well, certain hazardous materials are found at some locations. Based on the volume and the nature of some of the specific chemicals handled, there is a risk posed to the Company, its directors and its officers by the liability from potential spills and releases of hazardous chemicals into the environment. A significant portion of this risk is associated with the clean-up of sites contaminated by historic TELUS practices or by previous owners. There were no significant changes to TELUS' environmental risks during 2008. Although TELUS takes proactive measures to identify and mitigate environmental exposures and employs an environmental management system (EMS) based on ISO14001:2004, there can be no assurance that specific environmental incidents will not impact TELUS operations in the future.

Risk mitigation: While TELUS' environmental risks are considered immaterial to the Company's financial results, they are important from a corporate social responsibility perspective, which TELUS takes

seriously. Poorly executed environmental performance or risk mitigation could have negative legal, brand or community relations impacts. The Company's EMS is designed to identify and prioritize these risks. The specific risk posed by fuel systems is being addressed through a program to install containment and monitoring equipment at sites with systems of qualifying size. Further detailed assessment of environmental risks and mitigation activities can be found in the TELUS corporate social responsibility report at telus.com/csr.

Concerns related to climate change

TELUS recognizes and supports the general view of the worldwide scientific community that anthropogenic sources of carbon dioxide (CO₂) and other greenhouse gases (GHGs) are accelerating the rate of global climate change. If left unchecked, the continued increase in global GHG production may have far-reaching implications in terms of sea level rise, drought, flooding, propagation of disease, pestilence, increased frequency of severe weather events and many other potential effects. These changing circumstances could lead to increased threats to network infrastructure that may negatively impact the ability to provide telecommunications services. It may also lead to increased insurance premiums that directly increase the cost of delivering service.

TELUS' current estimate for its annual North American CO₂ emissions is 330,000 tonnes, with the final audited figure to be published in the Company's 2008 corporate social responsibility report. The majority of emissions are indirect, related to the consumption of electricity in the Company's networks and real estate. Direct emissions include those from TELUS' vehicle fleet and generators, while other emissions include those associated with employee air travel.

Risk mitigation: While the Company's CO₂ and GHG emissions are not considered significant on an industrial scale, TELUS recognizes its responsibility to identify and act upon efficiency opportunities in its business that will minimize its contribution to climate change. Measures being implemented to address this include: mandating that all new real estate construction meets, at a minimum, leadership in energy efficiency and design (LEED) silver requirements; optimization of real estate space; promotion of alternative work styles such as teleworking; adopting server virtualization technology where multiple virtual operating systems can run on one physical server; reduced employee travel; increased use of conventional and enhanced tele/video conferencing; and the replacement of older fleet vehicles with new, more fuel-efficient models. Further detailed assessment of climate change risks and TELUS' strategy can be found in the TELUS corporate social responsibility report at telus.com/csr.

10.9 Litigation and legal matters

Investigations, claims and lawsuits

Given the size of TELUS, investigations, claims and lawsuits seeking damages and other relief are regularly threatened or pending against the Company and its subsidiaries. TELUS cannot predict with any certainty the outcome of such actions and as such, there can be no assurance that results will not be negatively impacted.

TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan

Two lawsuits were commenced in Alberta in 2001 and 2002, respectively, by plaintiffs alleging to be either members or business agents of the Telecommunications Workers Union (TWU), and suing allegedly on behalf of all current or future beneficiaries of the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan, respectively.

The TELUS Corporation Pension Plan related action named the Company, certain of its affiliates and certain present and former trustees of the TELUS Corporation Pension Plan as defendants, and claims damages in the sum of \$445 million. The TELUS Edmonton Pension Plan related action named the Company, certain of its affiliates and certain individuals who are alleged to be trustees of the TELUS Edmonton Pension Plan as defendants, and claims damages in the sum of \$15.5 million. The statements of claim were subsequently amended in 2002 by the plaintiffs to include allegations, *inter alia*, that benefits provided under the two pension plans are less advantageous than those provided under their respective former pension plans, contrary to applicable legislation, that insufficient contributions were made to the plans and contribution holidays were taken and that the defendants wrongfully used the diverted funds, and that administration fees and expenses were improperly deducted.

The Company believes that it has good defences to the actions. Should the ultimate resolution of these lawsuits differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Risk mitigation: As a term of the 2005 settlement reached between TELUS Communications Inc. and the TWU that resulted in a collective agreement, the TWU has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs the TWU's desire and recommendation that these proceedings be dismissed or discontinued. However, the Company has been advised by the TWU that the plaintiffs have not agreed to dismiss or discontinue these actions, and the Company has not been informed of any change in this regard.

Certified class action

A class action was brought in 2004 under class action legislation in Saskatchewan against a number of past and present wireless service providers including the Company. The claim alleges that each of the carrier defendants is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. Similar proceedings were commenced in other provinces. A national class was certified on September 17, 2007 by the Saskatchewan Court of Queen's Bench. On February 20, 2008, the same court removed from the class all customers of the Company who are bound by an arbitration clause, applying two recent decisions of the Supreme Court of Canada. The Company has applied for leave to appeal the 2007 certification decision. Certification is a procedural step. If the Company is unsuccessful on appeal of the certification decision, the plaintiff would still be required to prove the merits of the claim.

Risk mitigation: The Company believes that it has good defences to the action. Should the ultimate resolution of the action differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Uncertified class actions

TELUS and certain subsidiaries are defendants in a number of uncertified class actions. The Company has observed an increased willingness on the part of claimants to launch class actions whereby a representative plaintiff seeks to pursue a legal claim on behalf of a large group of persons. A successful class action lawsuit, by its nature, could result in a sizable damage award that negatively affects a defendant's results.

One such lawsuit is a class action brought on June 26, 2008, in the Saskatchewan Court of Queen's Bench alleging that, among other things, Canadian telecommunications carriers including the Company have failed to provide proper notice of 9-1-1 charges to the public and have been deceitfully passing them off as government charges. The plaintiffs seek restitution and direct and punitive damages in an unspecified amount. The Company is assessing the merits of this claim, but the potential for liability and magnitude of potential loss cannot be readily determined at this time.

Risk mitigation: The Company is vigorously defending certification of these actions. Certification is a procedural step that determines whether a particular lawsuit may be prosecuted by a representative plaintiff on behalf of a class of individuals. Certification of a class action does not determine the merits of the claim, so that if the Company were unsuccessful in defeating certification, the plaintiffs would still be required to prove the merits of their claims. In addition, the Company believes that it has put in place reasonable policies, processes and awareness designed to enable compliance with legal obligations and reduce exposure to legal claims.

Civil liability in the secondary market

On December 31, 2005, Bill 198 came into force in Ontario, creating liability for misrepresentations by public companies in written disclosure and oral statements. These amendments also created liability for fraud and market manipulation. Since then, other provinces and territories have adopted similar legislation.

The legislation creates a right of action for damages against TELUS, its directors and certain of its officers in the event that TELUS or a person with actual, implied or apparent authority to act or speak on behalf of TELUS releases a document or makes a public oral statement that contains a misrepresentation or TELUS fails to make timely disclosure of a material change.

The legislation permits action to be taken by any person or company that acquires or disposes of TELUS securities in the secondary market during the period of time that the misrepresentation remains uncorrected in the public or, in the case of an omission, until such time as the material change has been disclosed. It is not necessary for the person or company to establish that they relied on the misrepresentation in making the acquisition or disposition.

Risk mitigation: In 2005, TELUS conducted a review of its disclosure practices and procedures and the extent to which they are documented. As part of that review, TELUS consulted external advisors. This review indicated that TELUS has well-documented and fulsome processes in place, including a corporate disclosure policy that restricts spokespersons to specifically designated senior management, provides a protocol for dealing with analysts and oral presentations, outlines the communication approach to issues, and has a disclosure committee to review and determine disclosure of material information. TELUS monitors legal developments and re-evaluates annually its disclosure practices and procedures, including in 2008, and believes that they continue to be appropriate and prudent and that its risk exposure is reasonable and has not changed significantly over the past 12 months. However, there can be no assurance that TELUS' processes will be followed by all team members at all times.

Legal and regulatory compliance

TELUS relies on its employees, officers, Board of Directors, key suppliers and partners to demonstrate reasonable legal and ethical standards. Situations might occur where individuals do not adhere to TELUS policies, or where personal information of a TELUS customer or employee is

inadvertently collected, used or disclosed in a manner that is not fully compliant with legislation, thereby exposing TELUS to the possibility of damages, sanctions and fines, or negatively affecting financial or operating results.

In 2008, the Company continued to expand its activities into the United States and other foreign jurisdictions. Its subsidiaries that operate in foreign jurisdictions are required to comply with local laws and regulations, which may differ substantially from Canadian laws and add to the legal and tax exposures the Company faces.

Risk mitigation: Although management cannot predict outcomes with certainty, management believes it has reasonable policies, processes and awareness in place for proper compliance and that these programs are having a positive effect on reducing risks. Since 2002, TELUS has instituted for its employees, officers and directors an ethics policy and in 2003, established a toll-free EthicsLine for anonymous reporting by anyone who has issues or complaints. Since 2003, TELUS has had a designated compliance officer, whose role is to work across the enterprise to ensure that the business has the appropriate controls and measurements in place to facilitate legal and regulatory compliance, including compliance under privacy legislation. For example, as a proactive measure on privacy compliance, TELUS places a control in the project development stage of major projects by requiring a privacy impact assessment to be performed for all major projects involving the use of customer or team member personal information.

In 2008, and in response to the Company's expansion of its activities into the United States and other foreign jurisdictions, the Company neared completion of testing and implementation of major billing and financial reporting system upgrades to accommodate present and future cross-border service requirements. Also in 2008, the Company launched a program to support TELUS' business plans for limited expansion and service extension into additional foreign jurisdictions. In the first phase of this program, TELUS completed its assessment of the Company's business processes and gating controls that strive to ensure that all foreign expansion initiatives receive appropriate review by regulatory, legal and taxation advisors. Such reviews support ongoing compliance with domestic and foreign regulatory, legal and taxation requirements.

The compliance officer reports jointly to the Audit Committee and the Senior Vice-President and Chief General Counsel. This dual reporting provides direct line-of-sight reporting to the Audit Committee to address identified risks. In addition, legal counsels qualified in the relevant foreign jurisdictions are engaged by TELUS' subsidiaries to provide legal advice as appropriate.

Intellectual property and proprietary rights

Technology-evolution also brings additional legal risks and uncertainties. The intellectual property and proprietary rights of owners and developers of hardware, software, business processes and other technologies may be protected under statute, such as patent, copyright and industrial design legislation, or under common law, such as trade secrets. With the growth and development of technology-based industries, the value of these intellectual property and proprietary rights has increased. Significant damages may be awarded in intellectual property infringement claims advanced by rights holders. In addition, defendants may incur significant costs to defend such claims and that possibility may prompt defendants to settle claims more readily, in part to mitigate those costs. Both of these factors may incent intellectual property rights holders to more aggressively pursue infringement claims.

Given the vast array of technologies and systems used by TELUS and its affiliates to deliver their products and services, and with the

rapid change and complexity of such technologies, disputes over intellectual property and proprietary rights can reasonably be expected to increase. As a user of technology, TELUS and its affiliates receive from time to time communications, ranging from solicitations to demands and legal actions, from third parties claiming ownership rights over intellectual property used by TELUS and its affiliates and asking them to pay a settlement or licensing fees for the continued use of such intellectual property. There can be no assurance that TELUS and its affiliates will not be faced with significant claims based on the alleged infringement of intellectual property rights, whether such claims are based on a legitimate dispute over the validity of the intellectual property rights or their infringement, or whether such claims are advanced for the primary purpose of extracting a settlement. TELUS and its affiliates may incur significant costs in defending infringement claims, and may suffer significant damages and lose the right to use technologies that are essential to their operations should any infringement claim prove successful.

Risk mitigation: While TELUS and its affiliates incorporate many technologies into their products and services, they are not primarily in the business of creating or inventing technology. In acquiring products and services from suppliers, it is the practice of TELUS and its affiliates to seek and obtain contractual protections consistent with industry practices, to help mitigate the risks of intellectual property infringements.

10.10 Manmade and natural threats

Concerns about natural disasters and intentional threats to TELUS' infrastructure, Canadian and international business operations

TELUS is a key provider of critical communications infrastructure in Canada and has certain supporting business functions located internationally in several countries (including the Philippines). The Company's network, information technology, physical assets, team members and business results may be materially impacted by exogenous threats, including natural disasters, seismic and severe weather-related events such as ice, snow and wind storms, flooding, wildfires, typhoons/hurricanes, tornadoes and tsunamis; intentional threats such as sabotage, terrorism, labour disputes and political and civil unrest; dependence on the provision of service to the Company by other infrastructure providers (e.g. power); and public health threats such as pandemics.

TELUS continues to recognize that global climate change may exacerbate certain of these threats, including the frequency and severity of weather-related events.

Risk mitigation: TELUS has an extensive ongoing enterprise-wide business continuity program (BCP) with resources dedicated to design, exercise, maintain, execute and monitor business continuity/disaster recovery policies, plans and processes that address a range of scenarios. This approach is focused on supporting TELUS' continued ability to serve customers, protect corporate assets, and strive to ensure employee protection and safety by instituting resiliency planning in the Company's day-to-day business operations. In regard to internationally situated business support and outsourcing functions, TELUS has acquired and/or announced expansion of these activities to four additional countries in different geographic regions to mitigate the risk of locating these functions in one country.

Although TELUS has business continuity planning processes, there can be no assurance that specific events will not materially impact TELUS operations and results.

Security – Electronic attack

Electronic attacks are intentional acts by people to gain unauthorized access to TELUS information or to prevent legitimate users from gaining access. Such attacks may use a range of techniques, from social engineering (non-technical intrusion relying heavily on human interaction and trickery to break normal security procedures) to the use of sophisticated software/hardware.

Risk mitigation: Using a layered security approach, TELUS has implemented a number of proactive, reactive and containment processes and systems to safeguard its IT infrastructure, information repositories and information distribution. Security policies and procedures are in place to govern the duties of those responsible for information confidentiality and integrity. Intrusion detection systems, access controls and incident response procedures are in place to provide continuous monitoring of TELUS' IT infrastructure.

Security – Vandalism and theft

TELUS has a number of publicly situated physical assets that are subject to vandalism and/or theft, including public payphones, copper cable, and network and telephone switch centres.

Risk mitigation: The Company has implemented an array of physical and electronic barriers, controls and monitoring systems to protect its assets, considering such factors as asset importance, exposure risks and potential costs incurred should a particular asset be damaged or stolen. As an additional level of risk management, TELUS has a corporate security group that continually investigates and evaluates the risks and, in co-operation with law enforcement and other external agencies, adjusts its protection to meet changing risks.

Although TELUS has IT and network security planning processes and thorough physical asset security planning processes, there can be no assurance that specific events will not materially impact TELUS operations and results.

10.11 Economic growth and fluctuations

It is expected that the slower Canadian economic growth in the fourth quarter of 2008 will continue into much of 2009, reflecting a significant reduction in commodity prices, a U.S. economy in recession, weakened global economic growth, and continued tight global credit conditions. The principal risk to the current view of the Canadian economy is the impact of the continued negative developments occurring globally on Canadian business and consumer confidence, and thus is expected to impact both the business and consumer sectors.

Continuation of economic uncertainty or recessions may adversely impact TELUS

An extended economic downturn may cause residential and business telecommunications customers to delay new service purchases, reduce volumes of use, discontinue use of services or seek lower-priced alternatives. Significant economic downturns or recessions could adversely impact TELUS' profitability, free cash flow and bad debt expense, and potentially require the Company to record impairments to the carrying value of its assets including, but not limited to, its intangible assets with indefinite lives (spectrum licences) and its goodwill. Impairments to the carrying value of assets would result in a charge to earnings and a reduction in shareholders' equity, but would not affect cash flow.

Risk mitigation: The Company cannot completely mitigate economic risks. TELUS has continued to benefit from healthy ongoing growth in the Canadian wireless sector. Through most of 2008, TELUS continued to benefit from growth in the cyclical resource economies in B.C. and Alberta, which are now expected to experience lower future growth. TELUS has continued to add business customers in Central Canada, focusing on four key vertical markets of the public sector, healthcare, financial services and energy, which are generally expected to be less exposed to the economic downturn than the manufacturing and export-oriented industries in Ontario and Quebec. To mitigate worsening economic impacts, TELUS may pursue additional cost reduction and efficiency initiatives, as well as reduce NCIB share repurchases and/or capital expenditures.

Pension funding

Economic fluctuations could also adversely impact the funding and expense associated with the defined benefit pension plans that TELUS sponsors. There can be no assurance that TELUS' pension expense and funding of its defined benefit pension plans will not increase in the future and thereby negatively impact earnings and/or cash flow. Defined benefit funding risks may occur if total pension liabilities exceed the total value of the respective trust funds. Unfunded differences may arise from lower than expected investment returns, reductions in the discount rate used to value pension liabilities, and actuarial loss experiences.

Risk mitigation: TELUS seeks to mitigate this risk through the application of policies and procedures designed to control investment risk and ongoing monitoring of its funding position. Pension expense and funding for 2009 were largely determined by the rates of return on the plans' assets for 2008 and interest rates at year-end 2008. As at December 31, 2008, the Company's best estimate for defined benefit pension plans expense in 2009 is \$18 million, as compared to a recovery of approximately \$100 million in 2008, and the Company's estimate of cash contributions to its defined benefit pension plans in 2009 is \$211 million (\$102 million in 2008).



Reconciliation of non-GAAP measures and definition of key operating indicators

A description, calculation and reconciliation of certain measures used by management

11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)

TELUS has issued guidance on and reports EBITDA because it is a key measure used by management to evaluate performance of business units, segments and the Company. EBITDA is also utilized in measuring compliance with debt covenants (see Section 11.4 EBITDA – excluding

restructuring costs). EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly

depending upon accounting methods or non-operating factors such as historical cost.

EBITDA is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to Operating income or Net income in measuring the Company's performance, nor should it be used as an exclusive measure of cash flow, because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the Consolidated statements of cash flows. Investors should carefully consider the specific items included in TELUS' computation of EBITDA. While EBITDA has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDA as reported by TELUS may not be comparable in all instances to EBITDA as reported by other companies.

The following is a reconciliation of EBITDA with Net income and Operating income. EBITDA (as adjusted) excludes a charge for introducing a net-cash settlement feature for share option awards granted prior to 2005. EBITDA and EBITDA (as adjusted) are regularly reported to the chief operating decision-maker.

Years ended December 31 (\$ millions)	2008	2007
Net income	1,128	1,258
Other expense (income)	36	36
Financing costs	463	440
Income taxes	436	233
Non-controlling interest	3	7
Operating income	2,066	1,974
Depreciation	1,384	1,355
Amortization of intangible assets	329	260
EBITDA	3,779	3,589
Net-cash settlement feature expense	—	169
EBITDA (as adjusted)	3,779	3,758

In addition to EBITDA, TELUS calculates EBITDA less capital expenditures as a simple proxy for cash flow at a consolidated level and in its two reportable segments. EBITDA less capital expenditures may be used for comparison to the reported results for other telecommunications companies over time and is subject to the potential comparability issues of EBITDA described above.

Years ended December 31 (\$ millions)	2008	2007
EBITDA	3,779	3,589
Capital expenditures	(1,859)	(1,770)
EBITDA less capital expenditures	1,920	1,819
Net-cash settlement feature expense	—	169
EBITDA (as adjusted) less capital expenditures	1,920	1,988
Payment for AWS spectrum licences	(882)	—
EBITDA (as adjusted) less capital expenditures and payment for AWS spectrum licences	1,038	1,988

11.2 Free cash flow

TELUS reports free cash flow because it is a key measure used by management to evaluate its performance. Free cash flow excludes certain working capital changes and other sources and uses of cash, as found in the Consolidated statements of cash flows. Free cash flow is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to the Consolidated statements of cash flows. Free cash flow is a measure that can be used to gauge TELUS' performance over time. Investors should be cautioned that free cash flow as reported by TELUS may not be comparable in all instances to free cash

flow as reported by other companies. While the closest GAAP measure is Cash provided by operating activities less Cash used by investing activities, free cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures, but before acquisitions, proceeds from divested assets and changes in certain working capital items (such as trade receivables, which can be significantly distorted by securitization changes that do not reflect operating results, and trade payables).

Prospectively, the Company has chosen to present free cash flow adjusted for contributions to employee defined benefit plans, as the contributions have a significant non-discretionary component and are determined separately from the net defined benefit plans expense previously included in the calculation. The following tables present free cash flow on both bases.

The following reconciles free cash flow with Cash provided by operating activities less Cash used by investing activities:

Years ended December 31 (\$ millions)	2008	2007
Cash provided by operating activities	2,819	3,172
Cash (used) by investing activities	(3,433)	(1,772)
	(614)	1,400
Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net	(3)	(4)
Reduction (increase) in securitized accounts receivable	200	—
Non-cash working capital changes except changes from income tax payments (receipts), interest payments (receipts) and securitized accounts receivable, and other	86	(10)
Acquisitions	696	—
Proceeds from the sale of property and other assets	(13)	(7)
Other investing activities	9	9
Free cash flow based on defined benefit plans		
employer contributions	361	1,388
Net employee defined benefit plans recovery (expense)	102	92
Employer contributions to employee defined benefit plans	104	93
Free cash flow based on defined benefit plans net expense	567	1,573

The following shows management's calculation of free cash flow.

Years ended December 31 (\$ millions)	2008	2007
EBITDA	3,779	3,589
Share-based compensation	5	96
Net employee defined benefit plans expense (recovery)	(102)	(92)
Employer contributions to employee defined benefit plans	(104)	(93)
Restructuring costs net of cash payments	16	(18)
Donations and securitization fees included in Other expense	(30)	(37)
Cash interest paid	(457)	(454)
Cash interest received	3	42
Income taxes received (paid) and other	(8)	125
Capital expenditures	(1,859)	(1,770)
Payment for AWS spectrum licences	(882)	—
Free cash flow based on defined benefit plans employer contributions	361	1,388
Employer contributions to employee defined benefit plans in excess of net employee defined benefit plans expense (recovery)	206	185
Free cash flow based on defined benefit plans net expense	567	1,573

11.3 Definition of key wireless operating indicators

These measures are industry metrics and are useful in assessing the operating performance of a wireless company.

Average revenue per subscriber unit per month (ARPU) is calculated as Network revenue divided by the average number of subscriber units on the network during the period and expressed as a rate per month. Data ARPU is a component of ARPU, calculated on the same basis for revenues derived from services such as text messaging, mobile computing, personal digital assistance devices, Internet browser activity and pay-per-use downloads.

Churn per month is calculated as the number of subscriber units disconnected during a given period divided by the average number of subscriber units on the network during the period, and expressed as a rate per month. A prepaid subscriber is disconnected when the subscriber has no usage for 90 days following expiry of the prepaid card.

Cost of acquisition (COA) consists of the total of handset subsidies, commissions, and advertising and promotion expenses related to the initial subscriber acquisition during a given period. As defined, COA excludes costs to retain existing subscribers (retention spend).

COA per gross subscriber addition is calculated as cost of acquisition divided by gross subscriber activations during the period.

EBITDA excluding COA is a measure of operational profitability normalized for the period costs of adding new customers.

Retention spend to Network revenue represents direct costs associated with marketing and promotional efforts aimed at the retention of the existing subscriber base divided by Network revenue.

11.4 Definition of liquidity and capital resource measures

Dividend payout ratio and dividend payout ratio of sustainable net earnings: For actual earnings, the measure is defined as the most recent quarterly dividend declared per share multiplied by four and divided by basic earnings per share for the 12-month trailing period. The target guideline for the annual dividend payout ratio is on a prospective basis, rather than on a trailing basis, and is 45 to 55% of sustainable net earnings. The dividend payout ratio on an actual basis, excluding income tax-related adjustments and the net-cash settlement feature, is considered more representative of a sustainable calculation.

EBITDA – excluding restructuring costs is used in the calculation of Net debt to EBITDA and EBITDA interest coverage, consistent with the calculation of the Leverage Ratio and the Coverage Ratio in credit facility covenants. Restructuring costs were \$59 million and \$20 million, respectively, for the years ended December 31, 2008 and 2007.

EBITDA – excluding restructuring costs interest coverage is defined as EBITDA excluding restructuring costs divided by Net interest cost. Historically, this measure is substantially the same as the Coverage Ratio covenant in TELUS' credit facilities.

Interest coverage on long-term debt is calculated on a 12-month trailing basis as Net income before interest expense on long-term debt and income tax expense, divided by interest expense on long-term debt.

Net debt is a non-GAAP measure whose nearest GAAP measure is Long-term debt, including Current maturities of long-term debt, as reconciled below. Net debt is one component of a ratio used to determine compliance with debt covenants (refer to the description of Net debt to EBITDA below).

As at December 31 (\$ millions)	2008	2007
Long-term debt including current portion	6,352	4,589
Debt issuance costs netted against long-term debt	28	30
Derivative liability	778	1,179
Accumulated other comprehensive income amounts arising from financial instruments used to manage interest rate and currency risks associated with U.S. dollar denominated debt	(168)	(137)
Cash and temporary investments	(4)	(20)
Proceeds from securitized accounts receivable	300	500
Net debt	7,286	6,141

The derivative liability in the table above relates to cross currency interest rate swaps that effectively convert principal repayments and interest obligations to Canadian dollar obligations, and is in respect of the U.S.\$1,925 million debenture maturing June 1, 2011. Management believes that Net debt is a useful measure because it incorporates the exchange rate impact of cross currency swaps put into place that fix the value of U.S. dollar denominated debt, and because it represents the amount of long-term debt obligations that are not covered by available cash and temporary investments.

Net debt to EBITDA – excluding restructuring costs is defined as Net debt as at the end of the period divided by the 12-month trailing EBITDA – excluding restructuring costs. TELUS' guideline range for Net debt to EBITDA is from 1.5 to 2.0 times. Historically, Net debt to EBITDA – excluding restructuring costs is substantially the same as the Leverage Ratio covenant in TELUS' credit facilities.

Net debt to total capitalization provides a measure of the proportion of debt used in the Company's capital structure.

Net interest cost is defined as Financing costs before gains on redemption and repayment of debt, calculated on a 12-month trailing basis. No gains on redemption and repayment of debt were recorded in the respective periods. Should they occur, losses recorded on the redemption of long-term debt are included in net interest cost. Net interest costs for the years ended December 31, 2008 and 2007 are equivalent to reported financing costs for those periods.

Total capitalization – book value excludes accumulated other comprehensive income or loss and is calculated as follows:

As at December 31 (\$ millions)	2008	2007
Net debt	7,286	6,141
Non-controlling interests	23	26
Shareholders' equity	7,182	6,926
Accumulated other comprehensive loss	130	104
Total capitalization – book value	14,621	13,197

management's report

Management is responsible to the Board of Directors for the preparation of the Consolidated financial statements of the Company and its subsidiaries. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and necessarily include some amounts based on estimates and judgments.

The Company maintains a system of internal controls that provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines that require TELUS team members (including Board members and Company employees) to maintain the highest ethical standards, and has established mechanisms for the reporting to the Audit Committee of accounting and ethics policy complaints. In addition, the Chief Compliance Officer works to ensure the Company has appropriate policies, controls and measurements in place to facilitate compliance with all legal and regulatory requirements. Annually, the Company performs an extensive risk assessment process, which includes interviews with senior management, a web-enabled risk and control assessment survey distributed to a large sample of employees, and input from the Company's strategic planning activities. Results of this process influence the development of the internal audit program. Key enterprise-wide risks are assigned to executive owners for the development and implementation of appropriate risk mitigation plans. As required by Canadian securities regulations and the United States *Sarbanes-Oxley Act*, the Company has an effective and efficient Sarbanes-Oxley certification enablement process. In addition to assessing disclosure controls and procedures and internal control over financial reporting, this process cascades informative certifications from the key stakeholders, which are reviewed by the Chief Executive Officer and the Chief Financial Officer as part of their due diligence process.

The Company has a formal policy on Corporate Disclosure and Confidentiality of Information, which sets out policies and practices including the mandate of the Disclosure Committee.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of the Management's discussion and analysis and the Consolidated financial statements, as well as other information contained in this report. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's discussion and analysis and the Consolidated financial statements contained in this report were being prepared. In addition, the Chief Executive Officer and the Chief Financial Officer have also evaluated the design and operating effectiveness of the Company's internal control over financial reporting as explained in the following report entitled Report of Management on Internal Control over Financial Reporting.

The Board of Directors has reviewed and approved these Consolidated financial statements. To assist the Board in meeting its oversight responsibilities, it has appointed an Audit Committee, which is comprised entirely of independent directors. All the members of the committee are financially literate and the Chair of the committee has financial expertise and meets the applicable securities law requirements as a financial expert. The committee oversees the Company's accounting and financial reporting, internal controls and disclosure controls, legal and regulatory compliance, ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Company's external and internal auditors, the management of the Company's risks, its creditworthiness, treasury plans and financial policy, and its whistleblower and accounting and ethics complaint procedures. The committee meets no less than quarterly and, as a standard feature of regularly scheduled meetings, holds an in-camera session with the external auditors and separately with the internal auditors without other management, including management directors, present. It oversees the work of the external auditors and approves the annual audit plan. It also receives reports on the external auditor's internal quality control procedures and independence. Furthermore, the Audit Committee reviews: the Company's major accounting policies including alternatives and potential key management estimates and judgments; the Company's financial policies and compliance with such policies; the evaluation by either the internal or external auditors of management's internal control systems; and the evaluation by management of the adequacy and effectiveness in the design and operation of the Company's disclosure controls and internal controls over financial reporting. The Audit Committee also considers reports on the Company's business continuity and disaster recovery plan; reports on financial risk management including derivative exposure and policies; tax planning, environmental, health and safety risk management, corporate social responsibility and management's approach for safeguarding corporate assets; annual review of the Chair of Board of Directors, Chief Executive Officer and Executive Leadership Team expenses and their use of corporate assets; and regularly reviews material capital expenditure initiatives. The committee pre-approves all audit, audit-related and non-audit services provided to the Company by the external auditors (and its affiliates). The committee's terms of reference are available, on request, to shareholders and at telus.com/governance.



Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer
February 11, 2009



Darren Entwistle
President
and Chief Executive Officer
February 11, 2009

report of management on internal control over financial reporting

Management of TELUS Corporation (TELUS) is responsible for establishing and maintaining adequate internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

TELUS' Chief Executive Officer and Chief Financial Officer have assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, in accordance with the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer (CEO) and the Executive Vice-President and Chief Financial Officer (CFO) and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes

in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on this assessment, management has determined that the Company's internal control over financial reporting is effective as of December 31, 2008. In connection with this assessment, no material weaknesses in the Company's internal control over financial reporting were identified by management as of December 31, 2008.

Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, audited the Company's Consolidated Financial Statements for the year ended December 31, 2008, and as stated in the Report of Independent Registered Chartered Accountants, they have expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008.



Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer
February 11, 2009



Darren Entwistle
President
and Chief Executive Officer
February 11, 2009

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited the accompanying consolidated statements of financial position of TELUS Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007, and the consolidated statements of income and other comprehensive income, retained earnings and accumulated other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of TELUS Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2009, expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
February 11, 2009

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited the internal control over financial reporting of TELUS Corporation and subsidiaries (the Company) as of December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008, of the Company and our report dated February 11, 2009, expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
February 11, 2009

consolidated statements of income and other comprehensive income

Years ended December 31 (millions except per share amounts)	2008	2007
Operating Revenues	\$ 9,653	\$ 9,074
Operating Expenses		
Operations	5,815	5,465
Restructuring costs (Note 7)	59	20
Depreciation	1,384	1,355
Amortization of intangible assets	329	260
	7,587	7,100
Operating Income	2,066	1,974
Other expense, net	36	36
Financing costs (Note 8)	463	440
Income Before Income Taxes and Non-Controlling Interest	1,567	1,498
Income taxes (Note 9)	436	233
Non-controlling interests	3	7
Net Income and Common Share and Non-Voting Share Income	1,128	1,258
Other Comprehensive Income (Note 19(c))		
Change in unrealized fair value of derivatives designated as cash flow hedges	(26)	82
Foreign currency translation adjustment arising from translating financial statements of self-sustaining foreign operations	2	(7)
Change in unrealized fair value of available-for-sale financial assets	(2)	(1)
	(26)	74
Comprehensive Income	\$ 1,102	\$ 1,332
Net Income Per Common Share and Non-Voting Share (Note 10)		
– Basic	\$ 3.52	\$ 3.79
– Diluted	\$ 3.51	\$ 3.76
Dividends Declared Per Common Share and Non-Voting Share (Note 11)	\$ 1.825	\$ 1.575
Total Weighted Average Common Shares and Non-Voting Shares Outstanding		
– Basic	320	332
– Diluted	322	334

The accompanying notes are an integral part of these consolidated financial statements.

consolidated statements of retained earnings and accumulated other comprehensive income (loss)

Years ended December 31 (millions)	2008			2007		
	Retained earnings	Accumulated other comprehensive income (loss)	Total	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at Beginning of Period	\$ 1,458	\$ (104)	\$ 1,354	\$ 1,200	\$ (178)	\$ 1,022
Income	1,128	(26)	1,102	1,258	74	1,332
	2,586	(130)	2,456	2,458	(104)	2,354
Common Share and Non-Voting Share dividends paid, or payable, in cash (Note 11)	(584)	—	(584)	(521)	—	(521)
Purchase of Common Shares and Non-Voting Shares in excess of stated capital (Note 19(f))	(143)	—	(143)	(483)	—	(483)
Other	—	—	—	4	—	4
Balance at End of Period (Note 19(a))	\$ 1,859	\$ (130)	\$ 1,729	\$ 1,458	\$ (104)	\$ 1,354

The accompanying notes are an integral part of these consolidated financial statements.

consolidated statements of financial position

As at December 31 (millions)

2008

2007

Assets

Current Assets

Cash and temporary investments, net	\$ 4	\$ 20
Short-term investments	—	42
Accounts receivable (Notes 14, 21(b))	966	711
Income and other taxes receivable	25	121
Inventories (Note 21(b))	333	243
Prepaid expenses and other (Note 21(b))	220	200
Derivative assets (Note 5(h))	10	4

1,558

1,341

Capital Assets, Net (Note 15)

Property, plant, equipment and other	7,317	7,196
Intangible assets subject to amortization	1,317	959
Intangible assets with indefinite lives	3,849	2,967

12,483

11,122

Other Assets

Deferred charges (Note 21(b))	1,513	1,318
Investments	42	39
Goodwill (Note 16)	3,564	3,168

5,119

4,525

\$ 19,160

\$ 16,988

Liabilities and Shareholders' Equity

Current Liabilities

Accounts payable and accrued liabilities (Note 21(b))	\$ 1,465	\$ 1,476
Income and other taxes payable	163	7
Restructuring accounts payable and accrued liabilities (Note 7)	51	35
Dividends payable	151	—
Advance billings and customer deposits (Note 21(b))	689	632
Current maturities of long-term debt (Note 18)	4	5
Current portion of derivative liabilities (Note 5(h))	75	27
Current portion of future income taxes	459	504

3,057

2,686

Long-Term Debt (Note 18)

6,348

4,584

Other Long-Term Liabilities (Note 21(b))

1,295

1,718

Future Income Taxes

1,255

1,048

Non-Controlling Interests

23

26

Shareholders' Equity (Note 19)

7,182

6,926

\$ 19,160

\$ 16,988

Commitments and Contingent Liabilities (Note 20)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Directors:



Director:
Brian F. MacNeill



Director:
Brian A. Canfield

consolidated statements of cash flows

Years ended December 31 (millions)	2008	2007
Operating Activities		
Net income	\$ 1,128	\$ 1,258
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,713	1,615
Future income taxes	161	377
Share-based compensation (Note 12(a))	5	96
Net employee defined benefit plans expense	(102)	(92)
Employer contributions to employee defined benefit plans	(104)	(93)
Restructuring costs, net of cash payments (Note 7)	16	(18)
Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net	3	4
Net change in non-cash working capital (Note 21(c))	(1)	25
Cash provided by operating activities	2,819	3,172
Investing Activities		
Capital expenditures excluding advanced wireless services spectrum licences (Notes 6, 15)	(1,859)	(1,770)
Payment for advanced wireless services spectrum licences (Note 6)	(882)	—
Acquisitions (Note 16)	(696)	—
Proceeds from the sale of property and other assets	13	7
Change in non-current materials and supplies, purchase of investments and other	(9)	(9)
Cash used by investing activities	(3,433)	(1,772)
Financing Activities		
Common Shares and Non-Voting Shares issued	—	1
Dividends to shareholders (Note 11)	(433)	(521)
Purchase of Common Shares and Non-Voting Shares for cancellation (Note 19(f))	(280)	(750)
Long-term debt issued (Notes 18, 21(c)) ¹	12,983	7,763
Redemptions and repayment of long-term debt (Notes 18, 21(c))	(11,667)	(7,857)
Dividends paid by a subsidiary to non-controlling interests	(5)	(4)
Other	—	(1)
Cash provided (used) by financing activities	598	(1,369)
Cash Position		
Increase (decrease) in cash and temporary investments, net	(16)	31
Cash and temporary investments, net, beginning of period	20	(11)
Cash and temporary investments, net, end of period	\$ 4	\$ 20
Supplemental Disclosure of Cash Flows		
Interest (paid) (Note 21(c))	\$ (457)	\$ (454)
Interest received	\$ 3	\$ 42
Income taxes (inclusive of Investment Tax Credits (Note 9)) (paid) received, net ²	\$ (10)	\$ 123

The accompanying notes are an integral part of these consolidated financial statements.

notes to consolidated financial statements

December 31, 2008

TELUS Corporation was incorporated under the *Company Act* (British Columbia) on October 26, 1998, under the name BCT.TELUS Communications Inc. (BCT). On January 31, 1999, pursuant to a court-approved plan of arrangement under the *Canada Business Corporations Act* among BCT, BC TELECOM Inc. (BC TELECOM) and the former Alberta-based TELUS Corporation (TC), BCT acquired all of the shares of BC TELECOM and TC in exchange for Common Shares and Non-Voting Shares of BCT. Subsequently on January 31, 1999, BC TELECOM was dissolved. On May 3, 2000, BCT changed its name to TELUS Corporation and in February 2005, the Company transitioned under the *Business Corporations Act* (British Columbia), successor to the *Company Act* (British Columbia). TELUS Corporation maintains its registered office at Floor 21, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7.

TELUS Corporation is one of Canada's largest telecommunications companies, providing a full range of telecommunications products and services. The Company is the largest incumbent telecommunications service provider in Western Canada and provides data, Internet protocol, voice and wireless services to Central and Eastern Canada.

Notes to consolidated financial statements	Page	Description
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summary of significant accounting policies

Summary review of accounting principles and the methods used in their application by the Company

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are expressed in Canadian dollars.

The terms TELUS or Company are used to mean TELUS Corporation and, where the context of the narrative permits, or requires, its subsidiaries.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all of the Company's subsidiaries, of which the principal one is TELUS Communications Inc. Currently, through the TELUS Communications Company partnership and the TELE-MOBILE COMPANY partnership, TELUS Communications Inc. includes substantially all of the Company's Wireline segment's operations and all of the Wireless segment's operations.

The financing arrangements of the Company and all of its subsidiaries do not impose restrictions on inter-corporate dividends.

On a continuing basis, TELUS Corporation reviews its corporate organization and effects changes as appropriate so as to enhance its value. This process can, and does, affect which of the Company's subsidiaries are considered principal subsidiaries at any particular point in time.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities at the date of the financial statements; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include:

- the key economic assumptions used to determine the fair value of residual cash flows arising from accounts receivable securitization;
- the allowance for doubtful accounts;
- the allowance for inventory obsolescence;
- the estimated useful lives of assets;
- the recoverability of tangible assets;
- the recoverability of intangible assets with indefinite lives;
- the recoverability of long-term investments;
- the recoverability of goodwill;
- the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits;
- the accruals for Canadian Radio-television and Telecommunications Commission (CRTC) deferral account liabilities; and
- certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets.

(c) Revenue recognition

The Company earns the majority of its revenue (voice local, voice long distance, data (including data and information technology managed services) and wireless network) from access to, and usage of,

the Company's telecommunications infrastructure. The majority of the balance of the Company's revenue (other and wireless equipment) arises from providing products and services facilitating access to, and usage of, the Company's telecommunications infrastructure.

The Company offers complete and integrated solutions to meet its customers' needs. These solutions may involve the delivery of multiple services and products occurring at different points in time and/or over different periods of time. As appropriate, these multiple element arrangements are separated into their component accounting units, consideration is measured and allocated amongst the accounting units based upon their relative fair values and then the Company's relevant revenue recognition policies are applied to the accounting units.

Multiple contracts with a single customer are normally accounted for as separate arrangements. In instances where multiple contracts are entered into with a customer in a short period of time, they are reviewed as a group to ensure that, similar to multiple element arrangements, relative fair values are appropriate.

The Company's revenues are recorded net of any value-added, sales and/or use taxes billed to the customer concurrent with a revenue-producing transaction.

Voice local, voice long distance, data and wireless network:

The Company recognizes revenues on the accrual basis and includes an estimate of revenues earned but unbilled. Wireline and wireless service revenues are recognized based upon usage of the Company's network and facilities and upon contract fees.

Advance billings are recorded when billing occurs prior to rendering the associated service; such advance billings are recognized as revenue in the period in which the services are provided. Similarly, and as appropriate, upfront customer activation and connection fees, along with the corresponding direct costs not in excess of the revenues, are deferred and recognized over the average expected term of the customer relationship.

When the Company receives no identifiable, separable benefit for consideration given to a customer (e.g. discounts and rebates), the consideration is recorded as a reduction of revenue rather than as an expense.

The Company follows the liability method of accounting for its quality of service rate rebate amounts that arise from the jurisdiction of the CRTC.

The CRTC has established a portable subsidy mechanism to subsidize Local Exchange Carriers, such as the Company, that provide residential service to high cost serving areas. The CRTC has determined the per line/per band portable subsidy rate for all Local Exchange Carriers. The Company recognizes the portable subsidy on an accrual basis by applying the subsidy rate to the number of residential network access lines it has in high cost serving areas, as further discussed in Note 4(c). Differences, if any, between interim and final subsidy rates set by the CRTC, are accounted for as a change in estimate in the period in which the CRTC finalizes the subsidy rate.

Other and wireless equipment: The Company recognizes product revenues, including wireless handsets sold to re-sellers and customer premises equipment, when the products are delivered and accepted by the end-user customers. Revenues from operating leases of equipment are recognized on a systematic and rational basis (normally a

straight-line basis) over the term of the lease. When the Company receives no identifiable, separable benefit for consideration given to a customer (e.g. discounts and rebates), the consideration is recorded as a reduction of revenue rather than as an expense.

Non-high cost serving area deferral account: On May 30, 2002, and on July 31, 2002, the CRTC issued Decision 2002-34 and Decision 2002-43, respectively, pronouncements that affected the Company's wireline revenues initially for the four-year periods beginning June 1, 2002, and August 1, 2002, respectively; subsequently the pronouncements were extended by one year. In an effort to foster competition for residential basic service in non-high cost serving areas, the concept of a deferral account mechanism was introduced by the CRTC, as an alternative to mandating price reductions.

The deferral account arises from the CRTC requiring the Company to defer the statement of income recognition of a portion of the monies received in respect of residential basic services provided to non-high cost serving areas. The revenue deferral was based on the rate of inflation (as measured by a chain-weighted Gross Domestic Product Price Index), less a productivity offset, and other exogenous factors that were associated with allowed recoveries in previous price cap regimes that have now expired. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as Service Improvement Programs in qualifying non-high cost serving areas, rate reductions (including those provided to competitors as required in Decision 2002-34 and Decision 2002-43) and/or rebates to customers. To the extent that a balance remains in the deferral account, interest expense of the Company is required to be accrued at the Company's short-term cost of borrowing.

The Company has adopted the liability method of accounting for the deferral account. This results in the Company recording a liability to the extent that activities it has undertaken, realized rate reductions for Competitor Services and other future qualifying events do not extinguish the balance of the deferral account, as further discussed in Note 20(a) and quantified in Note 21(b). This also resulted in the Company continuing to record incremental liability amounts, subject to reductions for the mitigating activities, during the Decisions' initial four-year periods. Other than for the interest accrued on the balance of the deferral account, which would be included in financing costs, substantially all statement of income and other comprehensive income effects of the deferral account are recorded through operating revenues. The CRTC can direct that the Company undertake activities drawing down the deferral account that would not affect the statement of income and other comprehensive income; the financial statement impacts of those activities would be contingent on what the CRTC directed.

(d) Cost of acquisition and advertising costs

Costs of acquiring customers, which include the total cost of hardware subsidies, commissions, advertising and promotion related to the initial customer acquisition, are expensed as incurred and are included in the Consolidated Statements of Income and Other Comprehensive Income as a component of Operations expense. Costs of advertising production, airtime and space are expensed as incurred.

(e) Research and development

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Deferred development costs are amortized over the life of the commercial production, or in the case of serviceable property, plant and equipment, are included in the appropriate property group and are depreciated over its estimated useful life.

(f) Depreciation and amortization

Assets are depreciated on a straight-line basis over their estimated useful life as determined by a continuing program of studies. Depreciation includes amortization of assets under capital leases and amortization of leasehold improvements. Leasehold improvements are normally amortized over the lesser of their expected average service life or the term of the lease. Intangible assets with finite lives (intangible assets subject to amortization) are amortized on a straight-line basis over their estimated lives; estimated lives are reviewed at least annually and are adjusted as appropriate. The continuing program of asset life studies considers such items as timing of technological obsolescence, competitive pressures and future infrastructure utilization plans; such considerations could also indicate that carrying values of assets may not be recoverable. If the carrying values of assets were not considered recoverable, an impairment provision (measured at the amount by which the carrying values of the assets exceed their fair values) would be recorded.

Estimated useful lives for the majority of the Company's capital assets subject to depreciation and amortization are as follows:

	Estimated useful lives ⁽¹⁾
Property, plant, equipment and other	
Network assets	
Outside plant	17 to 40 years
Inside plant	5 to 15 years
Wireless site equipment	6.5 to 8 years
Balance of depreciable property, plant, equipment and other	4 to 20 years
Intangible assets subject to amortization	
Subscriber base	
Wireline	40-years
Wireless	7 years
Software	3 to 5 years
Access to rights-of-way and other	8 to 30 years

(1) The composite depreciation rate for the year ended December 31, 2008, was 5.8% (2007 – 6.0%). The rate is calculated by dividing depreciation expense by an average gross book value of depreciable assets for the reporting period. A result of this methodology is that the composite depreciation rate will be lower in a period that has a higher proportion of fully depreciated assets remaining in use.

The Company chose to depreciate and amortize its assets on a straight-line basis as it believes that this method better reflects the consumption of resources related to the economic lifespan of the assets than use of an accelerated method and thus is more representative of the economic substance of the underlying use of the assets.

The carrying value of intangible assets with indefinite lives, and goodwill, is periodically tested for impairment using a two-step impairment test. The frequency of the impairment test generally is the reciprocal of the stability of the relevant events and circumstances, but intangible assets with indefinite lives and goodwill must, at a minimum, be tested annually; the Company has selected December as its annual test time. No impairment amounts arose from the December 2008 and December 2007 annual tests. The test is applied to each of the Company's two reporting units (the reporting units being identified in accordance with the criteria in the Canadian Institute of Chartered Accountants (CICA) Handbook section for intangible assets and goodwill): Wireline and Wireless.

The Company assesses its goodwill by applying the prescribed method of comparing the fair value of its reporting units to the carrying amounts of its reporting units. Consistent with current industry-specific valuation methods, a combination of the discounted cash flow approach, the market comparable approach and analytical review of industry and Company-specific facts is used in determining the fair value of the Company's reporting units.

(g) Translation of foreign currencies

Trade transactions completed in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date with any resulting gain or loss being included in the Consolidated Statements of Income and Other Comprehensive Income as Financing costs, as set out in Note 8.

(h) Financial instruments – recognition and measurement

In respect of the recognition and measurement of financial instruments, the Company has adopted the following policies:

Financial instrument	Classified as available-for-sale or held as part of a cash flow hedging relationship ⁽¹⁾	Classified as held for trading ⁽¹⁾⁽²⁾	Company's reason for classification selection
Short-term marketable security investments ⁽³⁾		X	The Company has selected this method as it better reflects management's investment intentions
Long-term investments not subject to significant influence of the Company ⁽³⁾	X		The Company has selected classification as available-for-sale as it better reflects management's investment intentions
Stand-alone derivatives which are a part of an established and documented cash flow hedging relationship	X		The Company believes that classification as held for hedging results in a better matching of the change in the fair value with the risk exposure being hedged

(1) The distinction between classification as available-for-sale (or held as part of a cash flow hedging relationship) or held for trading is that *unrealized* changes in the fair values of financial instruments classified as available-for-sale, or the effective portion of *unrealized* changes in the fair values of financial instruments held for hedging, are included in other comprehensive income and *unrealized* changes in the fair values of financial instruments classified as held for trading are included in net income.

(2) Certain financial instruments that are not required to be classified as held for trading may be classified as held for trading if the Company so chooses.

(3) In respect of investments in securities for which the fair values can be reliably measured, the Company determines the classification on an instrument-by-instrument basis at time of initial recognition.

- Accounts receivable that are available-for-sale to an arm's-length securitization trust are accounted for as loans and receivables. The Company has selected this method as the benefits that would have been expected to arise from using the available-for-sale method were not expected to exceed the costs of selecting and implementing that method.
- Regular-way purchases or sales (those which require actual delivery of financial assets or financial liabilities) are recognized on the trade date. The Company has selected this method as it is consistent with the mandatory trade-date accounting required for derivative instruments.
- Transaction costs, other than in respect of held for trading items, are added to the initial fair value of the acquired financial asset or financial liability. The Company has selected this method as it believes that this results in a better matching of the transaction costs with the periods benefiting from the transaction costs.
- In respect of hedges of anticipated transactions, which in the Company's specific instance currently relates to inventory purchase commitments, hedge gains/losses will be included in the cost of the inventory and will be expensed when the inventory is sold. The Company has selected this method as it believes that a better matching with the risk exposure being hedged is achieved.

(i) Hedge accounting

General: The Company applies hedge accounting to the financial instruments used to:

- establish designated currency hedging relationships for its U.S. Dollar denominated long-term debt future cash outflows (semi-annual interest payments and principal payments at maturity), as set out in Note 5 and further discussed in Note 18(b);

Hedge accounting is applied in specific instances as further discussed in Note 1(i).

The Company has minor foreign subsidiaries that are considered to be self-sustaining. Accordingly, foreign exchange gains and losses arising from the translation of the minor foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income, as set out in Note 19(c).

- establish designated currency hedging relationships for certain U.S. Dollar denominated future purchase commitments, as set out in Note 5; and

- fix the compensation cost arising from specific grants of restricted stock units, as set out in Note 5 and further discussed in Note 12(c).

Hedge accounting: The purpose of hedge accounting, in respect of the Company's designated hedging relationships, is to ensure that counterbalancing gains and losses are recognized in the same periods. The Company chose to apply hedge accounting, as it believes this is more representative of the economic substance of the underlying transactions.

In order to apply hedge accounting, a high correlation (which indicates effectiveness) is required in the offsetting changes in the values of the financial instruments (the hedging items) used to establish the designated hedging relationships and all, or a part, of the asset, liability or transaction having an identified risk exposure that the Company has taken steps to modify (the hedged items). The Company assesses the anticipated effectiveness of designated hedging relationships at inception and for each reporting period thereafter. A designated hedging relationship is considered effective by the Company if the following critical terms match between the hedging item and the hedged item: the notional amount of the hedging item and the principal of the hedged item; maturity dates; payment dates; and interest rate index (if, and as, applicable). As set out in Note 5(i), any ineffectiveness, such as from a difference between the notional amount of the hedging item and the principal of the hedged item, or if a previously effective designated hedging relationship becomes ineffective, is reflected in the Consolidated Statements of Income and Other Comprehensive Income as Financing costs if in respect of long-term debt and as Operations expense if in respect of U.S. Dollar denominated future purchase commitments or share-based compensation.

Hedging assets and liabilities: In the application of hedge accounting, an amount (the hedge value) is recorded on the Consolidated Statements of Financial Position in respect of the fair value of the hedging items. The net difference, if any, between the amounts recognized in the determination of net income and the amount necessary to reflect the fair value of the designated cash flow hedging items on the Consolidated Statements of Financial Position is effectively recognized as a component of other comprehensive income, as set out in Note 19(c).

In the application of hedge accounting to U.S. Dollar denominated long-term debt future cash outflows, the amount recognized in the determination of net income is the amount that counterbalances the difference between the Canadian dollar equivalent of the value of the hedged items at the rate of exchange at the statement of financial position date and the Canadian dollar equivalent of the value of the hedged items at the rate of exchange in the hedging items.

In the application of hedge accounting to the compensation cost arising from share-based compensation, the amount recognized in the determination of net income is the amount that counterbalances the difference between the quoted market price of the Company's Non-Voting Shares at the statement of financial position date and the price of the Company's Non-Voting Shares in the hedging items.

(j) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. The amounts recognized in respect of future income tax assets and liabilities are based upon the expected timing of the reversal of temporary differences or usage of tax losses and application of the substantively enacted tax rates at the time of reversal or usage.

The operations of the Company are complex and the related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question that result in uncertain tax positions. The Company only recognizes the income tax benefit of an uncertain tax position when it is more likely than not that the ultimate determination of the tax treatment of the position will result in that benefit being realized. The Company accrues for interest charges on current tax liabilities that have not been funded, which would include interest and penalties arising from uncertain tax positions. The Company includes such charges as a component of Financing costs.

The Company's research and development activities may be eligible to earn Investment Tax Credits; the determination of eligibility is a complex matter. The Company only recognizes the Investment Tax Credits when there is reasonable assurance that the ultimate determination of the eligibility of the Company's research and development activities will result in the Investment Tax Credits being received. When there is reasonable assurance that the Investment Tax Credits will be received, they are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate, as set out in Note 9.

(k) Share-based compensation

Canadian GAAP requires, for share option awards granted after 2001, that a fair value be determined for share option awards at the date of grant and that such fair value be recognized in the financial statements.

Proceeds arising from the exercise of share option awards are credited to share capital, as are the recognized fair values of the exercised share option awards.

Share option awards which have a net-equity settlement feature, as set out in Note 12(b), and which do not also have a net-cash settlement feature, are accounted for as equity instruments. The Company has selected the equity instrument fair value method of accounting for the net-equity settlement feature so as to align with the accounting treatment afforded to the associated share option awards.

Share option awards which have a net-cash settlement feature, as set out in Note 12(b), are accounted for as liability instruments. If share option awards which have the net-cash settlement feature and which were granted subsequent to 2001 are settled using other than the net-cash settlement feature, they would revert to being accounted for as equity instruments.

In respect of restricted stock units, as set out in Note 12(c), the Company accrues a liability equal to the product of the vesting restricted stock units multiplied by the fair market value of the corresponding shares at the end of the reporting period (unless hedge accounting is applied, as set out in Note 1(i)). The expense for restricted stock units that do not ultimately vest is reversed against the expense that had been previously recorded in their respect.

When share-based compensation vests in one amount at a future point in time (cliff vesting), the expense is recognized by the Company in the Consolidated Statements of Income and Other Comprehensive Income on a straight-line basis over the vesting period. When share-based compensation vests in tranches (graded vesting), the expense is recognized by the Company in the Consolidated Statements of Income and Other Comprehensive Income using the accelerated expense attribution method.

(l) Employee future benefit plans

The Company accrues for its obligations under employee defined benefit plans, and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over the expected average remaining service period of active employees of the plan, as are past service costs and transitional assets and liabilities.

The Company uses defined contribution accounting for the Telecommunication Workers Pension Plan and the British Columbia Public Service Pension Plan that cover certain of the Company's employees.

(m) Cash and temporary investments, net

Cash and temporary investments, which may include investments in money market instruments that are purchased three months or less from maturity, are presented net of outstanding items including cheques written but not cleared by the bank as at the statement of financial position date. Cash and temporary investments, net, are classified as a liability on the statement of financial position when the amount of the cheques written but not cleared by the bank exceeds the amount of the cash and temporary investments. When cash and temporary investments, net, are classified as a liability, they may also include overdraft amounts drawn on the Company's bilateral bank facilities, which revolve daily and are discussed further in Note 17.

(n) Sales of receivables

Transfers of receivables in securitization transactions are recognized as sales when the Company is deemed to have surrendered control over the transferred receivables and consideration, other than for its beneficial interests in the transferred receivables, has been received. When the Company sells its receivables, it retains reserve accounts, which are retained interests in the securitized receivables, and servicing rights. When a transfer is considered a sale, the Company derecognizes all receivables sold, recognizes at fair value the assets received and the liabilities incurred and records the gain or loss on sale in the Consolidated Statements of Income and Other Comprehensive Income as Other expense, net. The amount of gain or loss recognized on the sale of receivables depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the receivables sold and the retained interests based upon their relative fair market value at the sale date. The Company estimates the fair value for its retained interests based on the present value of future expected cash flows using management's best estimates of the key assumptions (credit losses, the weighted average life of the receivables sold and discount rates commensurate with the risks involved).

(o) Inventories

The Company's inventory consists primarily of wireless handsets, parts and accessories and communications equipment held for resale. Inventories are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis. Previous write-downs to net realizable value are reversed if there is a subsequent increase in the value of the related inventories. See Note 2(c) and Note 21(b).

(p) Capital assets

General: Capital assets are recorded at historical cost and, with respect to self-constructed property, plant, equipment and other, include materials, direct labour and applicable overhead costs. With respect to internally developed, internal-use software, recorded historical costs include materials, direct labour and direct labour-related costs. Where property, plant, equipment and other construction projects exceed \$50 million and are of a sufficiently long duration (generally, longer than twelve months), an amount is capitalized for the cost of funds used to finance construction. The rate for calculating the capitalized financing costs is based on the Company's one-year cost of borrowing.

When property, plant and/or equipment are sold by the Company, the historical cost less accumulated depreciation is netted against the sale proceeds and the difference is included in the Consolidated Statements of Income and Other Comprehensive Income as Other expense, net.

Asset retirement obligations: Liabilities are recognized for statutory, contractual or legal obligations, normally when incurred, associated with the retirement of property, plant and equipment (primarily certain items of outside plant and wireless site equipment) when those obligations result from the acquisition, construction, development and/or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs are capitalized into the carrying amount of the related asset.

In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion is included in determining the results of operations.

(q) Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the period of expected use. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

For the year ended December 31, 2008, real estate and vehicle operating lease expenses, which are net of the amortization of the deferred gain on the sale-leaseback of buildings, were \$225 million (2007 – \$211 million). The unamortized balances of the deferred gains on the sale-leaseback of buildings are set out in Note 21(b).

(r) Investments

The Company accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. The excess of the cost of equity investments over the underlying book value at the date of acquisition, except for goodwill, is amortized over the estimated useful lives of the underlying assets to which it is attributed.

The Company accounts for its other investments as available-for-sale at their fair values unless the investment securities do not have quoted market prices in an active market, in which case the Company uses the cost basis of accounting whereby investments are initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable. The cost of investments sold or amounts reclassified out of other comprehensive income into earnings are determined on a specific identification basis.

Unless there is an other than temporary decline in the value of an available-for-sale investment, carrying values for available-for-sale investments are adjusted to estimated fair values with such adjustment being included in the Consolidated Statements of Income and Other Comprehensive Income as a component of other comprehensive income. When there is an other than temporary decline in the value of the investment, the carrying values of investments accounted for using the equity, available-for-sale and cost methods are reduced to estimated fair values with such reduction being included in the Consolidated Statements of Income and Other Comprehensive Income as Other expense, net.

(s) Comparative amounts

Certain of the comparative amounts have been reclassified to conform to the presentation adopted currently.

accounting policy developments

Summary review of generally accepted accounting principle developments that do, will, or may, affect the Company

(a) Convergence with International Financial Reporting Standards as issued by the International Accounting Standards Board

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) over a transitional period to be complete by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011, the date which the Company has selected for adoption.

Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and standards not subject to a joint-convergence project have been exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. As illustrated in Note 2(b)-(e), the first convergence method may, or will, result in the Company either having the option to, or being required to, effectively, change over certain accounting policies to IFRS-IASB prior to 2011. As discussed further in Note 22(g), the United States' Financial Accounting Standards Board and the International Accounting Standards Board have completed a joint-project on business combinations and non-controlling interests.

The International Accounting Standards Board's work plan currently, and expectedly, has projects underway that are expected to result in new pronouncements that continue to evolve IFRS-IASB, and, as a result, IFRS-IASB as at the transition date is expected to differ from its current form.

In November 2008, the United States Securities and Exchange Commission issued a proposed road map, with seven milestones, that would permit certain United States reporting issuers to use IFRS-IASB in their filings. This proposal is a significant development as it also contemplates mandatory usage of IFRS-IASB by United States reporting issuers as early as 2014 (such a mandatory usage decision – Milestone 6 – is anticipated to be made by the United States Securities and Exchange Commission in 2011). It is not possible to currently assess the impact, if any, this proposal will have on the International Accounting Standards Board's work plan; however, Milestone 1 is a requirement for improvements in accounting standards and a subsequent consideration by the United States Securities and Exchange Commission of whether IFRS-IASB are of high quality and sufficiently comprehensive.

The Company is in the process of assessing the impacts on itself of the Canadian convergence initiative. There are several phases that the Company will have to complete on the path to changing over to IFRS-IASB:

- The initial impact assessment and scoping phase includes the identification of significant differences between existing Canadian GAAP and IFRS-IASB as relevant to the Company's specific instance.
- The following key elements phase includes the identification, evaluation and selection of the accounting policies necessary for the Company to change over to IFRS-IASB. As well, this phase includes other operational elements such as information technology, internal control over financial reporting and training.
- The subsequent embedding phase will integrate the solutions into the Company's underlying financial system and processes that are necessary for the Company to change over to IFRS-IASB.

The Company is required to qualitatively disclose its changeover impacts in conjunction with its 2008 and 2009 financial reporting. As activities progress through 2010, the specificity of the disclosure of pre- and post-IFRS-IASB changeover accounting policy differences is expected to increase.

In its 2010 fiscal year, the fiscal year immediately prior to the one in which it commences reporting under IFRS-IASB, the Company will, effectively, have to maintain two parallel books of account: one set of books of account will be prepared using the contemporary version of Canadian GAAP and would be used for contemporaneous reporting; one set of books of account will be prepared using the contemporary version of IFRS-IASB and would be used for reporting of comparative amounts during the Company's 2011 fiscal year.

Initial impact assessment and scoping phase – status: Based upon the then current state of IFRS-IASB, in the first quarter of 2008 this phase utilized a diagnostic process and identified a modest number of topics possibly impacting either the Company's financial results and/or the Company's effort necessary to changeover to IFRS-IASB. The IASB has activities currently underway which may, or will, change IFRS-IASB and such change may, or will, impact the Company; the Company will assess any such change as a component of its key elements phase.

Key elements phase – status: Currently underway are the identification, evaluation and selection of the accounting policies necessary for the Company to change over to IFRS-IASB; consideration of impacts on operational elements such as information technology and internal control over financial reporting are integral to this process. Targeted training activities, which leveraged both internal and external resources, occurred during the current reporting period.

Although its impact assessment activities are well underway and progressing ahead of plan, continued progress is necessary before the Company can prudently increase the specificity of the disclosure of pre- and post-IFRS-IASB changeover accounting policy differences, other than as set out in Note 2(b)-(e).

(b) Financial instruments – disclosure; presentation

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for financial instrument *disclosure* were replaced with new recommendations (CICA Handbook Section 3862); the existing recommendations for financial instrument *presentation* were carried forward, unchanged (as CICA Handbook Section 3863).

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for financial instrument disclosures apply to the Company. As set out in Note 5, the new recommendations result in incremental disclosures, relative to those previously required, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the statement of financial position date, and how an entity manages those risks. The transitional provisions provide that certain of the incremental disclosures need not be provided on a comparative basis in the year of adoption.

(c) Inventories

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for accounting for inventories were replaced with new recommendations (CICA Handbook Section 3031).

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for accounting for inventories apply to the Company. The new recommendations provide more guidance on the measurement and disclosure requirements for inventories; significantly, the new recommendations allow the reversals of previous write-downs to net realizable value where there is a subsequent increase in the value of inventories. The Company's results of operations and financial position were not materially affected by the new recommendations.

(d) Goodwill and intangible assets

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for goodwill and intangible assets and research and development costs were replaced with new recommendations (CICA Handbook Section 3064).

Commencing with the Company's 2009 fiscal year, the new recommendations of the CICA for goodwill and intangible assets will apply to the Company. The new recommendations provide extensive guidance on when expenditures qualify for recognition as intangible assets. The Company's results of operations and financial position are not expected to be materially affected by the new recommendations.

(e) Business combinations and non-controlling interests

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for business combinations and consolidation financial statements will be replaced with new recommendations for business combinations (CICA Handbook Section 1582), consolidations (CICA Handbook Section 1601) and non-controlling interests (CICA Handbook Section 1602).

Generally, the new recommendations result in measuring business acquisitions at the fair value of the acquired business and a prospectively applied shift from a parent company conceptual view of consolidation theory (which results in the parent company recording book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording fair values attributable to non-controlling interests). Unlike the corresponding new U.S. GAAP (see Note 22(g)), which requires the recognition of the fair value of goodwill attributable to non-controlling interests, both the new Canadian GAAP recommendations and IFRS-IASB allow the choice of whether or not to recognize the fair value of goodwill attributable to non-controlling interests on an acquisition-by-acquisition basis.

Measuring business acquisitions at fair value will, among other things, result in:

- acquisition costs being expensed;
- acquisition-created restructuring costs being expensed;
- contingent consideration, which is accounted for as a financial liability, being measured at fair value at the time of the acquisition with subsequent changes in its fair value being included in determining the results of operations; and
- changes in non-controlling ownership interests subsequent to the parent company's acquisition of control, and not resulting in the parent company's loss of control, being accounted for as capital transactions.

Effective January 1, 2009, the Company early adopted the new recommendations and did so in accordance with the transitional provisions; the Company would otherwise have been required to adopt the new recommendations effective January 1, 2011.

Whether the Company will be materially affected by the new recommendations will depend upon the specific facts of business combinations, if any, occurring subsequent to the Company's adoption of the new recommendations. The Company's consolidated financial statements will, however, be subject to a small number of retrospectively applied non-controlling interest-related presentation and disclosure changes:

- the Consolidated Statements of Financial Position will recognize non-controlling interest as a separate component of shareholders' equity (December 31, 2008, shareholders' equity to be reported post-adoption would be \$7,205 million); and
- the Consolidated Statements of Income and Other Comprehensive Income will present the allocation of net income and other comprehensive income between the Company's shareholders and non-controlling interests rather than reflecting the non-controlling interest in the results of operations as a deduction in arriving at net income and other comprehensive income.

Had these presentation and disclosure changes been applied to the Consolidated Statements of Income and Other Comprehensive Income for the years ended December 31, 2008 and 2007, the result would be as follows:

Years ended December 31 (millions except per share amounts)	2008		2007	
	As currently reported	To be reported post-adoption	As currently reported	To be reported post-adoption
Operating revenues	\$ 9,653	\$ 9,653	\$ 9,074	\$ 9,074
Operating expenses				
Operations	5,815	5,815	5,465	5,465
Restructuring costs	59	59	20	20
Depreciation	1,384	1,384	1,355	1,355
Amortization of intangible assets	329	329	260	260
	7,587	7,587	7,100	7,100
Operating income	2,066	2,066	1,974	1,974
Other expense, net	36	36	36	36
Financing costs	463	463	440	440
Income before income taxes (and non-controlling interests) ⁽¹⁾	1,567	1,567	1,498	1,498
Income taxes	436	436	233	233
(Non-controlling interests) ⁽¹⁾	3	N/A	7	N/A
Net income (and Common Share and Non-Voting Income) ⁽¹⁾	1,128	1,131	1,258	1,265
Other Comprehensive Income				
Change in unrealized fair value of derivatives designated as cash flow hedges	(26)	(26)	82	82
Foreign currency translation adjustment arising from translating financial statements of self-sustaining foreign operations	2	2	(7)	(7)
Change in unrealized fair value of available-for-sale financial assets	(2)	(2)	(1)	(1)
	(26)	(26)	74	74
Comprehensive Income	\$ 1,102	\$ 1,105	\$ 1,332	\$ 1,339
Net income attributable to:				
Common Shares and Non-Voting-Shares		\$ 1,128		\$ 1,258
Non-controlling interests		3		7
		\$ 1,131		\$ 1,265
Total comprehensive income attributable to:				
Common Shares and Non-Voting Shares		\$ 1,102		\$ 1,332
Non-controlling interests		3		7
		\$ 1,105		\$ 1,339
Net income per Common Share and Non-Voting Share				
– Basic	\$ 3.52	\$ 3.52	\$ 3.79	\$ 3.79
– Diluted	\$ 3.51	\$ 3.51	\$ 3.76	\$ 3.76

(1) Captioning in parentheses will be deleted post-adoption.

3

capital structure financial policies

Summary review of the Company's objectives, policies and processes for managing its capital structure

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income), long-term debt (including any associated hedging assets or liabilities, net of amounts recognized in accumulated other comprehensive income), cash and temporary investments and securitized accounts receivable in the definition of capital.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or increase or decrease the amount of sales of trade receivables to an arm's-length securitization trust.

The Company monitors capital on a number of bases, including: net debt to Earnings Before Interest, Taxes, Depreciation and Amortization – excluding restructuring costs (EBITDA – excluding restructuring costs); and dividend payout ratio of sustainable net earnings.

Net debt to EBITDA – excluding restructuring costs is calculated as net debt at the end of the period divided by twelve-month trailing EBITDA – excluding restructuring costs. Net debt is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; the calculation of net debt is as set out in the following schedule. Net debt is one component of a ratio used to determine compliance with debt covenants. The calculation of EBITDA – excluding restructuring costs is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; the calculation of

EBITDA – excluding restructuring costs is as set out in the following schedule. This measure, historically, is substantially the same as the leverage ratio covenant in the Company's credit facilities.

Dividend payout ratio of sustainable net earnings is calculated as the most recent quarterly dividend declared per share multiplied by four and divided by basic earnings per share for the twelve-month trailing period excluding tax-related adjustments and the statement of income and other comprehensive income impacts of the share options with the net-cash settlement feature, which are discussed further in Note 12(b).

During 2008, the Company's strategy, which was unchanged from 2007, was to maintain the financial policies and guidelines set out in the following schedule. The Company believes that these financial policies and guidelines, which are reviewed annually, are currently at the optimal level and, by maintaining credit ratings in the range of BBB+ to A–, or the equivalent, provide reasonable access to capital.

As at, or twelve-month periods ended, December 31 (\$ in millions)	Policies and guidelines	2008	2007
Components of debt and coverage ratios			
Net debt ⁽¹⁾		\$ 7,286	\$ 6,141
EBITDA – excluding restructuring costs ⁽²⁾		\$ 3,838	\$ 3,609
Net interest cost ⁽³⁾		\$ 463	\$ 440
Debt ratio			
Net debt to EBITDA – excluding restructuring costs	1.5–2.0	1.9	1.7
Coverage ratios			
Interest coverage on long-term debt ⁽⁴⁾		4.3	4.2
EBITDA – excluding restructuring costs interest coverage ⁽⁵⁾		8.3	8.2
Other measure			
Dividend payout ratio of sustainable net earnings	45–55%	54%	47%

(1) Net debt is calculated as follows:

	2008	2007
Long-term debt (Note 18)	\$ 6,352	\$ 4,589
Debt issuance costs netted against long-term debt	28	30
Derivative liabilities, net	778	1,179
Accumulated other comprehensive income		
amounts arising from financial instruments used to manage interest rate and currency risks associated with U.S. Dollar denominated debt (excluding tax effects)	(168)	(137)
Cash and temporary investments, net	(4)	(20)
Cumulative proceeds from accounts receivable securitization (Note 14)	300	500
Net debt	\$ 7,286	\$ 6,141

(2) EBITDA – excluding restructuring costs is calculated as follows:

	2008	2007
EBITDA (Note 6)	\$ 3,779	\$ 3,589
Restructuring costs (Note 7)	59	20
EBITDA – excluding restructuring costs	\$ 3,838	\$ 3,609

- (3) Net interest cost is defined as financing costs before gains on redemption and repayment of debt, calculated on a twelve-month trailing basis (losses recorded on the redemption of long-term debt, if any, are included in net interest cost).
- (4) Interest coverage on long-term debt is defined as net income before interest expense on long-term debt and income tax expense, divided by interest expense on long-term debt (including losses recorded on the redemption of long-term debt, if any).
- (5) EBITDA – excluding restructuring costs interest coverage is defined as EBITDA – excluding restructuring costs divided by net interest cost. This measure is substantially the same as the coverage ratio covenant in the Company's credit facilities.

The net debt to EBITDA – excluding restructuring costs ratio increased 0.2 as increased net debt was partly offset by increased twelve-month trailing EBITDA – excluding restructuring costs (the net increase in debt supported payment of \$882 million for advanced wireless services spectrum licences and \$692 million (net of acquired cash) for January 2008 acquisitions, as discussed further in Note 16(b)). When compared to one year earlier, the interest coverage on

long-term debt had an increase of 0.1 as a result of a 0.2 increase due to higher income before income taxes and interest expense and a 0.1 decrease due to higher interest expense. The EBITDA – excluding restructuring costs interest coverage ratio had an increase of 0.1 as a result of a 0.5 increase due to higher EBITDA – excluding restructuring costs and a 0.4 decrease due to higher net interest costs.

regulation of rates charged to customers

Summary review of rate regulation impacts on Company operations and revenues

(a) General

The provision of telecommunications services by the Company through TELUS Communications Company partnership and the TELE-MOBILE COMPANY partnership is subject to regulation under provisions of the *Telecommunications Act*. The regulatory authority designated to implement the *Telecommunications Act* is the CRTC, which is established pursuant to the terms of the *Canadian Radio-television and Telecommunications Act*.

Pursuant to Part III of the *Telecommunications Act*, the CRTC may forbear, conditionally or unconditionally, from regulating the rates for certain telecommunications services, or certain classes of telecommunications service providers, where the CRTC finds that the service or class of service provided by the telecommunications service provider is subject to competition sufficient to protect the interests of customers. TELUS Communications Company partnership has, for example, been granted forbearance from regulation in relation to its entire portfolio of wireless and paging services. In the latter half of 2007, TELUS Communications Company partnership was granted forbearance in relation to the setting of rates for a number of its wireline telecommunications services that are currently provided within 96 residential and 47 business exchanges where it was determined that there was significant competition for such services to protect the interests of customers. Previously forborne services, including interexchange voice services, wide area network services and retail Internet services, remain forborne. TELUS Communications Company partnership also operates as a forborne telecommunications service provider when it provides telecommunications services (primarily business local exchange service) outside of its traditional incumbent serving territory (Alberta, British Columbia and parts of Quebec) and, as such, all of its services are not subject to rate regulation.

The fact that a portion of the Company's operations remain subject to rate regulation does not result in the Company selecting accounting policies that would differ from generally accepted accounting principles.

Less than one-quarter of the Company's revenues are from Wireline segment regulated services and subject to CRTC price regulation; none of the Company's Wireless segment revenues are currently subject to CRTC regulation.

The major categories of telecommunications services provided by TELUS Communications Company partnership that are subject to rate regulation or have been forborne from rate regulation are as follows:

Regulated services

- Residential wireline local services in incumbent local exchange carrier regions in non-forborne exchanges
- Business wireline local services in incumbent local exchange carrier regions in non-forborne exchanges
- Competitor services
- Public telephone services

Forborne services (not subject to rate regulation)

- Residential wireline services in incumbent local exchange carrier regions in forborne exchanges⁽¹⁾
- Business wireline services in incumbent local exchange carrier regions in forborne exchanges⁽²⁾
- Non-incumbent local exchange carrier services
- Long distance services
- Internet services
- International telecommunications services
- Interexchange private line services⁽³⁾
- Certain data services
- Cellular, enhanced specialized mobile radio digital (ESMR digital) and personal communications services digital (PCS digital)
- Other wireless services, including paging
- Sale of customer premises equipment (CPE)

- (1) Forborne on exchanges where two or more competitors, including wireless service providers, are offering or providing similar services.
- (2) Forborne on exchanges where one or more competitors, including wireless service providers, are offering or providing similar services.
- (3) Forborne on routes where one or more competitors are offering or providing services at DS-3 or greater bandwidth.

(b) Price caps form of regulation

The CRTC has adopted a form of price cap regulation as the means by which it regulates the prices for the Company's telecommunications rate regulated services. A four-year price regulation regime commenced on June 1, 2002, with the issuance of the CRTC's Decision 2002-34; on December 16, 2005, the CRTC issued Decision 2005-69 that extended that price cap regime, without changes, for a period of one year to May 31, 2007. The CRTC conducted a review of the existing price cap regulation which included an oral hearing held in Gatineau, Quebec. This proceeding was concluded in the fourth quarter of 2006 with the CRTC issuing its decision in this matter on April 30, 2007. The decision was consistent with the Company's current accounting policies.

Rate-setting methodology: Under the prospective price regulation framework, services are separated into seven service categories, or baskets, for those exchanges which continue to be regulated. Price constraints within the individual baskets are outlined in the following table.

Capped and non-forborne basket	Price cap constraint	Overriding maximum annual increase
Residential wireline services in incumbent local exchange carrier regions		
In non-high cost serving areas	Capped at existing rates	0%
In high cost serving areas	Increase by lesser of inflation ⁽¹⁾ or 5%	5%
Business wireline services in incumbent local exchange carrier regions	Increase annually by inflation ⁽¹⁾	10%
Other capped services	Increase annually by inflation ⁽¹⁾	10%
Competitor services	Inflation ⁽¹⁾ less 3.2% productivity offset	0%
Public telephone services	One-time \$0.50 increase	N/A
Services with frozen rates (e.g. 9-1-1 service)	Capped at existing rates	0%

(1) As measured by chain-weighted Gross Domestic Product Price Index.

Primary exchange rates for forborne services/exchanges are capped at existing rates.

(c) Other non-price cap regulation

Other: The CRTC has adopted an imputation test filing requirement to set floor prices for rate regulated services. The imputation test filing requirements ensure that the incumbent telephone companies do not reduce rates for services below their costs in an effort to thwart competitive entry or engage in predatory pricing to drive out existing competitors.

Unbundling of essential facilities: In an effort to foster facilities-based competition in the provision of telecommunications services, the CRTC has mandated that certain essential or near-essential facilities be made available to competitors at rates based on their incremental costs plus an approved mark-up. The CRTC has defined essential facilities as facilities which are monopoly controlled, required by competitors as an input to provide services and which cannot be economically or technically duplicated by competitors (which include central office codes, subscriber listings and certain local loops in high cost serving areas). The incumbent local exchange carriers must provide certain non-essential facilities, which the CRTC deems to be near-essential, such as local loop facilities in low cost areas and transiting arrangements, at prices determined as if they were essential facilities. This obligation on the part of the incumbent local exchange carriers will continue until the market for near-essential loops and transiting arrangements is competitive. The CRTC conducted an oral hearing on this matter in Gatineau, Quebec in the fourth quarter of 2007 and issued its decision in this matter on March 3, 2008. The decision did not impact the treatment of the regulated rates.

Voice contribution expense and portable subsidy revenue: Local exchange carriers' costs of providing the level of basic residential services that the CRTC requires to be provided in high cost serving areas is more than the CRTC allows the local exchange carriers to charge for the level of service. To ameliorate the situation, the CRTC collects contribution payments, in a central fund, from all Canadian telecommunications service providers (including voice, data and wireless service providers) that are then disbursed as portable subsidy payments to subsidize the costs of providing residential telephone services in high cost serving areas. The portable subsidy payments are paid based upon a total subsidy requirement calculated on a per line/per band subsidy rate, as further discussed in Note 1(c). The CRTC currently determines, at a national level, the total contribution requirement necessary to pay the portable subsidies and then collects contribution payments from the Canadian telecommunications service providers, calculated as a percentage of their telecommunications service revenue (as defined in CRTC Decision 2000-745 and Telecom Order CRTC 2001-220). The final contribution expense rate for 2008 is 0.87% and the interim rate for 2009 has been similarly set at 0.87%. The Company's contributions to the central fund, \$52 million for the year ended December 31, 2008 (2007 – \$60 million), are accounted for as an operations expense and the portable subsidy receipts, \$58 million for the year ended December 31, 2008 (2007 – \$63 million), are accounted for as local revenue.

financial instruments

Summary schedules and review of financial instruments, including the management of associated risks and fair values

(a) Risks – overview

The Company's financial instruments and the nature of risks which they may be subject to are as set out in the following table.

Financial instrument	Risks				
	Credit	Liquidity	Market risks		
			Currency	Interest rate	Other price
Measured at cost or amortized cost					
Cash and temporary investments	X		X	X	
Accounts receivable	X		X		
Accounts payable		X	X		
Restructuring accounts payable		X			
Short-term obligations		X		X	
Long-term debt		X	X	X	
Measured at fair value					
Short-term investments				X	X
Long-term investments					X
Foreign exchange derivatives ⁽¹⁾	X	X	X		
Share-based compensation derivatives ⁽¹⁾	X	X			X
Cross currency interest rate swap derivatives ⁽¹⁾	X	X	X	X	

(1) Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only) and sets criteria for the creditworthiness of the transaction counterparties.

(b) Credit risk

Excluding credit risk, if any, arising from currency swaps settled on a gross basis (see Note 5(c)), the best representation of the Company's maximum exposure (excluding tax effects) to credit risk, which is a worst-case scenario and does not reflect results expected by the Company, is as set out in the following table.

As at December 31 (millions)	2008	2007
Cash and temporary investments, net	\$ 4	\$ 20
Accounts receivable	966	711
Derivative assets	10	4
	\$ 980	\$ 735

Cash and temporary investments: Credit risk associated with cash and temporary investments is minimized substantially by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Accounts receivable: Credit risk associated with accounts receivable is minimized by the Company's large and diverse customer base, which covers substantially all consumer and business sectors in Canada. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

The following table presents an analysis of the age of customer accounts receivable not allowed for as at the dates of the Consolidated Statements of Financial Position. As at December 31, 2008, the weighted average life of customer accounts receivable is 28 days

(2007 – 29 days) and the weighted average life of past-due customer accounts receivable is 64 days (2007 – 63 days). No interest is charged on customer accounts which are current. Thereafter, interest is charged at a regulatory-based rate on non-forborne Wireline segment outstanding balances and a market rate on forborne Wireline segment and Wireless segment outstanding balances.

As at December 31 (millions)	2008	2007
Customer accounts receivable net of allowance		
for doubtful accounts		
Current	\$ 555	\$ 375
30–60 days past billing date	121	91
61–90 days past billing date	47	33
Greater than 90 days past billing date	43	29
	\$ 766	\$ 528
Customer accounts receivable (Note 21(b))	\$ 843	\$ 591
Allowance for doubtful accounts	(77)	(63)
	\$ 766	\$ 528

The Company must make significant estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information, why the accounts are past-due and line of business from which the customer accounts receivable arose are all considered when determining whether past-due accounts should be allowed for; the same factors are considered when determining whether to write off amounts charged to the allowance account against the customer accounts receivable. The provision for doubtful accounts is calculated on a specific-identification basis for customer accounts receivable over a specific balance threshold and on a statistically derived allowance basis for the remainder. No customer accounts receivable are written off directly to the provision for doubtful accounts.

The following table presents a summary of the activity related to the Company's allowance for doubtful accounts.

Years ended December 31 (millions)	2008	2007
Balance, beginning of period	\$ 63	\$ 55
Additions (provision for doubtful accounts)	71	43
Net use	(57)	(35)
Balance, end of period	\$ 77	\$ 63

Aside from the normal customer accounts receivable credit risk associated with its retained interest, the Company has no continuing exposure to credit risk associated with its trade receivables which are sold to an arm's-length securitization trust, as discussed further in Note 14.

Derivative assets (and derivative liabilities): Counterparties to the Company's cross currency interest rate swap agreements, share-based compensation cash-settled equity forward agreements and foreign exchange derivatives are major financial institutions that have all been accorded investment grade ratings by a primary rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements

and hedging items due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the non-performance of its counterparties, the Company considers the risk of this remote. The Company's derivative liabilities do not have credit-risk-related contingent features.

(c) Liquidity risk

As a component of the Company's capital structure financial policies, discussed further in Note 3, the Company manages liquidity risk by maintaining bilateral bank facilities and syndicated credit facilities, by maintaining a commercial paper program, by the sales of trade receivables to an arm's-length securitization trust, by continuously monitoring forecast and actual cash flows and by managing maturity profiles of financial assets and financial liabilities. As disclosed in Note 18(g), the Company has significant debt maturities in future years. As at December 31, 2008, the Company has access to a shelf prospectus, in effect until September 2009, pursuant to which it can offer \$2.5 billion (2007 – \$3.0 billion) of debt or equity securities. The Company believes that its investment grade credit ratings provide reasonable access to capital markets.

The Company's undiscounted financial liability contractual maturities, which include interest thereon (where applicable), are as follows:

As at December 31, 2008 (millions)	Non-derivative				Derivative				Total
	Non-interest bearing financial liabilities	Long-term debt (see Note 18)				Other financial liabilities			
		All except capital leases ⁽¹⁾⁽²⁾	Capital leases	Currency swaps amounts to be exchanged ⁽²⁾		Other	Currency swaps amounts to be exchanged		
				(Receive)	Pay		(Receive)	Pay	
2009									
First quarter	\$ 1,093	\$ 44	\$ 1	\$ —	\$ —	\$ 62	\$ (119)	\$ 110	\$ 1,191
Balance of year	239	356	2	(187)	250	13	(117)	116	672
2010	15	477	2	(187)	250	8	—	—	565
2011	2	2,641	1	(2,439)	3,077	—	—	—	3,282
2012	—	1,891	—	—	—	—	—	—	1,891
2013	—	447	—	—	—	—	—	—	447
Thereafter	1	2,699	—	—	—	—	—	—	2,700
Total	\$ 1,350	\$ 8,555	\$ 6	\$ (2,813)	\$ 3,577	\$ 83	\$ (236)	\$ 226	\$ 10,748

(1) Interest payment cash outflows in respect of commercial paper and amounts drawn under the Company's credit facility have been calculated based upon the rates in effect as at December 31, 2008.

(2) The amounts included in the undiscounted non-derivative long-term debt in respect of the U.S. Dollar denominated long-term debt, and the corresponding amounts included in the long-term debt currency swaps receive column, have been determined based upon statement of financial position date exchange rates. The U.S. Dollar denominated long-term debt contractual maturity amounts, in effect, are reflected in the long-term debt currency swaps pay column as gross cash flows are exchanged pursuant to the cross currency interest rate swap agreements (see Note 18(b)).

(d) Currency risk

The Company's functional currency is the Canadian Dollar, but it regularly transacts in U.S. Dollars due to certain routine revenues and operating costs being denominated in U.S. Dollars, as well as sourcing some inventory purchases and capital asset acquisitions internationally. The U.S. Dollar is the only foreign currency to which the Company has a significant exposure.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and currency options to fix the exchange rates on short-term U.S. Dollar denominated transactions and commitments. Hedge accounting is applied to these short-term foreign currency forward contracts and currency options on an exception basis only.

The Company is also exposed to currency risks in that the fair value or future cash flows of its U.S. Dollar denominated long-term debt

will fluctuate because of changes in foreign exchange rates. Currency hedging relationships have been established for the related semi-annual interest payments and principal payment at maturity, as set out in Note 18(b).

(e) Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of temporary investments, short-term investments, short-term obligations, long-term debt and/or cross currency interest rate swap derivatives.

When the Company has temporary investments, they have short maturities and fixed rates, thus their fair value will fluctuate with changes in market interest rates; absent monetization prior to maturity, the related future cash flows do not change due to changes in market interest rates.

If the balance of short-term investments includes debt instruments and/or dividend-paying equity instruments, the Company could be exposed to interest rate risks.

As short-term obligations arising from bilateral bank facilities (Note 17), which typically have variable interest rates, are rarely outstanding for periods that exceed one calendar week, interest rate risk associated with this item is not material.

In respect of the Company's currently outstanding long-term debt, other than for commercial paper and amounts drawn on its credit facility (Note 18(c)), it is all fixed-rate debt. The fair value of fixed-rate debt fluctuates with changes in market interest rates; absent early redemption and/or foreign exchange rate fluctuations, the related future cash flows do not. Due to the short maturities of commercial paper, its fair values are not materially affected by changes in market interest rates but its cash flows representing interest payments may be if the commercial paper is rolled over.

Amounts drawn on the Company's short-term and long-term credit facilities will be affected by changes in market interest rates in a manner similar to commercial paper.

Similar to fixed-rate debt, the fair value of the Company's cross currency interest rate swap derivatives fluctuates with changes in market interest rates as the interest rate swapped to is fixed; absent early redemption, the related future cash flows do not change due to changes in market interest rates.

(f) Other price risk

Short-term investments: If the balance of short-term investments includes equity instruments, the Company would be exposed to equity price risks.

Long-term investments: The Company is exposed to equity price risks arising from investments classified as available-for-sale. Such investments are held for strategic rather than trading purposes.

Share-based compensation derivatives: The Company is exposed to other price risk arising from cash-settled share-based compensation (appreciating Common Share and Non-Voting Share prices increase

both the expense and the potential cash outflow). Cash-settled equity swap agreements have been entered into that establish a cap on the Company's cost associated with its net-cash settled share options (Note 12(b)) and fix the Company's cost associated with its restricted stock units (Note 12(c)).

(g) Market risk

Net income and other comprehensive income for the year ended December 31, 2008, could have varied if the Canadian Dollar: U.S. Dollar foreign exchange rates, market interest rates and the Company's Non-Voting Share prices varied by reasonably possible amounts from their actual statement of financial position date values.

The sensitivity analysis of the Company's exposure to currency risk at the reporting date has been determined based upon the hypothetical change taking place at the current statement of financial position date (as contrasted with applying the hypothetical change to all relevant transactions during the reported period). The U.S. Dollar denominated balances and derivative financial instrument notional amounts as at the statement of financial position date have been used in the calculations.

The sensitivity analysis of the Company's exposure to interest rate risk at the reporting date has been determined based upon the hypothetical change taking place at the beginning of the fiscal year and being held constant through to the current statement of financial position date. The relevant current statement of financial position date principal and notional amounts have been used in the calculations.

The sensitivity analysis of the Company's exposure to other price risk arising from share-based compensation at the reporting date has been determined based upon the hypothetical change taking place at the current statement of financial position date. The relevant current statement of financial position date notional number of shares, including those in the cash-settled equity swap agreements, has been used in the calculations.

The income tax provisions, which are reflected net in the sensitivity analysis, reflect the applicable basic blended federal and provincial statutory income tax rates for the period.

Reasonably possible changes in market risks⁽¹⁾

	Cdn.\$:U.S.\$ exchange rate	Market interest rate	Non-Voting Share price ⁽²⁾
Year ended December 31, 2008 (\$ in millions)	10%	25 basis points	25% ⁽³⁾
Net income	\$ 7	\$ 3.	\$ 10
Other comprehensive income	\$ 34	\$ 3	\$ 4

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased amount, and unfavourable hypothetical changes in the assumptions result in a decreased amount, of net income and/or other comprehensive income. Changes in net income and/or other comprehensive income generally cannot be extrapolated because the relationship of the change in assumption to the change in net income and/or other comprehensive income may not be linear.

In this table, the effect of a variation in a particular assumption on the amount of net income and/or other comprehensive income is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in more favourable foreign exchange rates (increased strength of the Canadian Dollar)), which might magnify or counteract the sensitivities.

The sensitivity analysis assumes that changes in exchange rates and market interest rates would be realized by the Company; in reality, the competitive marketplace in which the Company operates would impact this assumption.

No provision has been made for a difference in the notional number of shares associated with share-based compensation awards made during the reporting period that may have arisen due to a difference in the Non-Voting Share price.

(2) The hypothetical effects of changes in the price of the Company's Non-Voting Shares are restricted to those which would arise from the Company's share-based compensation items which are accounted for as liability instruments and the associated cash-settled equity swap agreements.

(3) To facilitate ongoing comparison of sensitivities, a constant variance of approximate magnitude has been used. Reflecting a 4.5-year data period and calculated on a monthly basis, which is consistent with the current assumptions and methodology set out in Note 12(b), the volatility of the Company's Non-Voting Share price as at December 31, 2008, was 26.4%; reflecting the twelve-month data period ended December 31, 2008, the volatility was 30.8%.

The Company is exposed to other price risks in respect of its financial instruments, as discussed further in Note 5(f). Changes in the Company's Common Share price would not have materially affected the Company's net income or its other comprehensive income.

(h) Fair values

General: The carrying value of cash and temporary investments, accounts receivable, accounts payable, restructuring accounts payable and short-term obligations approximates their fair values due to the immediate or short-term maturity of these financial instruments. The carrying values of the Company's investments accounted for using the cost method do not exceed their fair values.

The carrying value of short-term investments equals their fair value as they are classified as held for trading. The fair value is determined directly by reference to quoted market prices in active markets.

The fair values of the Company's long-term debt are based on quoted market prices in active markets. The fair values of the Company's derivative financial instruments used to manage exposure to interest

rate and currency risks are estimated based on quoted market prices in active markets for the same or similar financial instruments or on the current rates offered to the Company for financial instruments of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

The fair values of the Company's derivative financial instruments used to manage exposure to increases in compensation costs arising from certain forms of share-based compensation are based upon fair value estimates of the related cash-settled equity forward agreements provided by the counterparty to the transactions (such fair value estimates being largely based upon the Company's Common Share and Non-Voting Share prices as at the statement of financial position dates).

The Company's financial instruments that are measured at fair value on a recurring basis in periods subsequent to initial recognition and the level within the fair value hierarchy used to measure them are as set out in the following table.

As at December 31, 2008 (millions)	Carrying value	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical items (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Foreign exchange derivatives	\$ 10	\$ –	\$ 10	\$ –
Liabilities				
Share-based compensation derivatives	\$ 82	\$ –	\$ 82	\$ –
Cross currency interest rate swap derivatives	778	–	778	–
	\$ 860	\$ –	\$ 860	\$ –

Non-derivative: The Company's non-derivative financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition and its long-term debt, which is measured at amortized cost, are as set out in the following table.

As at December 31 (millions)	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Short-term investments designated as held for trading upon initial recognition	\$ –	\$ –	\$ 42	\$ 42
Long-term investments designated as available-for-sale upon initial recognition ⁽¹⁾	\$ –	\$ –	\$ 14	\$ 14
Long-term debt	\$ 6,352	\$ 6,445	\$ 4,589	\$ 4,960

(1) The carrying value for long-term investments presented in this schedule excludes \$42 (2007 – \$25) of investments in companies over which the Company has significant influence and investments in securities which do not have quoted market prices in an active market.

Derivative: The Company's derivative financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition are as set out in the following table.

As at December 31 (millions)				2008			2007
	Maximum maturity date	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Current Assets							
Derivatives designated as held for trading upon initial recognition and used to manage currency risks arising from U.S. Dollar transactions to which hedge accounting is not applied							
- Revenues	2009	\$ 29	\$ -	\$ -	\$ 22	\$ 1	\$ 1
- Purchases	2009	\$ 95	3	3	\$ 25	1	
Derivatives ⁽¹⁾ designated as held for hedging ⁽²⁾ upon initial recognition and used to manage							
- Currency risks arising from U.S. Dollar denominated purchases	2009	\$ 102	7	7	\$ 44	-	-
- Changes in share-based compensation costs (Note 12(c))	2008		-	-	\$ 27	2	-
			10			4	
Less: Net amounts due to counterparties in respect of derivatives used to manage changes in share-based compensation costs and classified as held for hedging							
			-			(2)	-
			\$ 10	\$ 10		\$ 2	\$ 2
Current Liabilities							
Derivatives designated as held for trading upon initial recognition and used to manage currency risks arising from U.S. Dollar transactions to which hedge accounting is not applied							
- Purchases	2008		\$ -	\$ -	\$ 30	\$ 1	\$ 1
Derivatives used to manage changes in share-based compensation costs and classified as held for							
- Trading (Note 12(b))	2012	\$ 177	64	64	\$ 220	26	27
- Hedging ⁽¹⁾⁽²⁾ (Note 12(c))	2009	\$ 28	11	13	\$ -	-	-
			75			27	
Add: Net amounts due to counterparties in respect of derivatives used to manage changes in share-based compensation costs and classified as held for							
- Trading (Note 12(b))			-			1	
- Hedging (Note 12(c))			2			-	
			\$ 77	\$ 77		\$ 28	\$ 28
Other Long-Term Liabilities							
Derivatives ⁽¹⁾ used to manage changes in share-based compensation costs and classified as held for hedging ⁽²⁾ (Note 12(c))							
	2010	\$ 26	\$ 7	\$ 8	\$ 23	\$ 4	\$ 4
Derivatives ⁽¹⁾ classified as held for hedging ⁽²⁾ and used to manage currency risks associated with U.S. Dollar denominated debt (Note 18(b))							
	2011	\$ 2,951	778	783	\$ 2,951	1,179	1,188
			785			1,183	
Add: Net amounts due to counterparties in respect of derivatives used to manage changes in share-based compensation costs and classified as held for hedging							
			1			1	
Add: Interest payable in respect of derivatives used to manage currency risks associated with U.S. Dollar denominated debt and classified as held for hedging							
			5			8	
			\$ 791	\$ 791		\$ 1,192	\$ 1,192

(1) Designated as cash flow hedging items.

(2) Hedge accounting is applied to derivatives that are designated as held for hedging.

(i) Recognition of derivative gains and losses

The following table sets out the gains and losses on derivative instruments classified as cash flow hedging items and their location within the Consolidated Statements of Income and Other Comprehensive Income.

Years ended December 31 (millions)	Amount of gain (loss) recognized in other comprehensive income (effective portion) (Note 19(c))		Gain (loss) reclassified from other comprehensive income into income (effective portion) (Note 19(c))			Gain (loss) recognized in income on derivative (ineffective portion)		
	2008	2007	Location	Amount		Location	Amount	
				2008	2007		2008	2007
Derivatives used to manage								
currency risks								
– Associated with U.S. Dollar denominated debt	\$ 402	\$ (345)	Financing costs	\$ 436	\$ (475)	Financing costs	\$ (1)	\$ –
– Arising from U.S. Dollar denominated purchases	14	(9)	Operations	7	(9)	Operations	–	–
Derivatives used to manage changes in share-based compensation costs (Note 12(c))	(11)	–	Operations	(3)	7	Operations	–	–
	\$ 405	\$ (354)		\$ 440	\$ (477)		\$ (1)	\$ –

The following table sets out gains and losses arising from derivative instruments: classified as held for trading items; not designated as being in a hedging relationship as discussed in Note 1(i); and their location within the Consolidated Statements of Income and Other Comprehensive Income.

Years ended December 31 (millions)	Gain (loss) recognized in income on derivatives		
	Location	Amount	
		2008	2007
Derivatives used to manage currency risks	Financing costs	\$ 15	\$ (16)
Derivatives used to manage changes in share-based compensation costs (Note 12(b))	Operations	(47)	(23)
		\$ (32)	\$ (39)

segmented information

Summary disclosure of segmented information regularly reported to the Company's chief operating decision-maker

The Company's reportable segments are Wireline and Wireless. The Wireline segment includes voice local, voice long distance, data and other telecommunications services excluding wireless. The Wireless segment includes digital personal communications services, equipment sales and wireless Internet services. Segmentation is based on similarities in technology, the technical expertise required to deliver

the products and services, customer characteristics, the distribution channels used and regulatory treatment. Intersegment sales are recorded at the exchange value, which is the amount agreed to by the parties. The following segmented information is regularly reported to the Company's Chief Executive Officer (the Company's chief operating decision-maker).

	Wireline		Wireless		Eliminations		Consolidated	
Years ended December 31 (millions)	2008	2007	2008	2007	2008	2007	2008	2007
Operating revenues								
External revenue	\$ 5,021	\$ 4,810	\$ 4,632	\$ 4,264	\$ -	\$ -	\$ 9,653	\$ 9,074
Intersegment revenue	131	114	28	27	(159)	(141)	-	-
	5,152	4,924	4,660	4,291	(159)	(141)	9,653	9,074
Operating expenses								
Operations expense	3,327	3,222	2,647	2,384	(159)	(141)	5,815	5,465
Restructuring costs	51	19	8	1	-	-	59	20
	3,378	3,241	2,655	2,385	(159)	(141)	5,874	5,485
EBITDA ⁽¹⁾	\$ 1,774	\$ 1,683	\$ 2,005	\$ 1,906	\$ -	\$ -	\$ 3,779	\$ 3,589
Capital expenditures	\$ 1,311	\$ 1,219	\$ 548	\$ 551	\$ -	\$ -	\$ 1,859	\$ 1,770
Advanced wireless services spectrum licences	-	-	882	-	-	-	882	-
CAPEX ⁽²⁾	\$ 1,311	\$ 1,219	\$ 1,430	\$ 551	\$ -	\$ -	\$ 2,741	\$ 1,770
EBITDA less CAPEX	\$ 463	\$ 464	\$ 575	\$ 1,355	\$ -	\$ -	\$ 1,038	\$ 1,819
Operating expenses (as adjusted)⁽³⁾								
Operations expense (as adjusted) ⁽³⁾	3,327	3,077	2,647	2,360	(159)	(141)	5,815	5,296
Restructuring costs	51	19	8	1	-	-	59	20
	3,378	3,096	2,655	2,361	(159)	(141)	5,874	5,316
EBITDA (as adjusted) ⁽³⁾	\$ 1,774	\$ 1,828	\$ 2,005	\$ 1,930	\$ -	\$ -	\$ 3,779	\$ 3,758
Capital expenditures	\$ 1,311	\$ 1,219	\$ 548	\$ 551	\$ -	\$ -	\$ 1,859	\$ 1,770
Advanced wireless services spectrum licences	-	-	882	-	-	-	882	-
CAPEX ⁽²⁾	\$ 1,311	\$ 1,219	\$ 1,430	\$ 551	\$ -	\$ -	\$ 2,741	\$ 1,770
EBITDA (as adjusted) less CAPEX	\$ 463	\$ 609	\$ 575	\$ 1,379	\$ -	\$ -	\$ 1,038	\$ 1,988
EBITDA (as adjusted) (from above)							\$ 3,779	\$ 3,758
Incremental charge ⁽³⁾							-	169
EBITDA (from above)							3,779	3,589
Depreciation							1,384	1,355
Amortization							329	260
Operating income							2,066	1,974
Other expense, net							36	36
Financing costs							463	440
Income before income taxes and non-controlling interests							1,567	1,498
Income taxes							436	233
Non-controlling interests							3	7
Net income							\$ 1,128	\$ 1,258

(1) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; EBITDA is defined by the Company as operating revenues less operations expense and restructuring costs. The Company has issued guidance on, and reports, EBITDA because it is a key measure used by management to evaluate performance of its business segments and is utilized in measuring compliance with certain debt covenants.

(2) Total capital expenditures (CAPEX) is the sum of capital expenditures and advanced wireless services spectrum licences.

(3) Substantially all of the Company's share option awards that were granted prior to January 1, 2005, and which were outstanding on January 1, 2007, were amended by adding a net-cash settlement feature (see Note 12(b)); such amendment resulted in an incremental charge to operations of \$NIL (2007 - \$169) and did not result in an immediate cash outflow. In respect of 2008 and 2007 results provided to the Company's chief operating decision-maker, operations expense and EBITDA are being presented both with, and without, the impact of such amendment.

7

restructuring costs

Summary continuity schedule and review of restructuring costs

Years ended December 31 (millions)	2008	2007
Restructuring costs		
Workforce		
Voluntary	\$ 9	\$ 5
Involuntary	50	14
Other	—	1
	59	20
Disbursements		
Workforce		
Voluntary	21	14
Involuntary and other	21	23
Other	1	1
	43	38
Expenses greater than (less than) disbursements	16	(18)
Restructuring accounts payable and accrued liabilities		
Balance, beginning of period	35	53
Balance, end of period	\$ 51	\$ 35

In 2008, arising from its competitive efficiency program, the Company undertook a number of smaller initiatives, such as operational consolidation, rationalization and integration. These initiatives were aimed to improve the Company's operating productivity and competitiveness. The Company's estimate of restructuring costs in 2009 is approximately \$50 to \$75 million.

8

financing costs

Summary schedule of items comprising financing costs by nature

Years ended December 31 (millions)	2008	2007
Interest on long-term debt	\$ 468	\$ 464
Interest on short-term obligations and other	13	—
Foreign exchange (Note 5(i))	(1)	13
	480	477
Capitalized interest during construction	(3)	—
	477	477
Interest income		
Interest on tax refunds	(9)	(27)
Other interest income	(5)	(10)
	(14)	(37)
	\$ 463	\$ 440

income taxes

Summary reconciliations of statutory rate income tax expense to provision for income taxes and analyses of future income tax liability

Years ended December 31 (millions)	2008	2007
Current	\$ 275	\$ (144)
Future	161	377
	\$ 436	\$ 233

The Company's income tax expense differs from that calculated by applying statutory rates for the following reasons:

Years ended December 31 (\$ in millions)	2008	2007
Basic blended federal and provincial tax at statutory income tax rates	\$ 486 31.0%	\$ 503 33.6%
Revaluation of future income tax liability to reflect future statutory income tax rates	(41)	(177)
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	(21)	(79)
Share option award compensation	6	(4)
Other	6	(10)
Income tax expense per Consolidated Statements of Income and Other Comprehensive Income	\$ 436 27.8%	\$ 233 15.6%

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its future income tax liability. The operations of the Company are complex and the related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question.

Temporary differences comprising the future income tax liability are estimated as follows:

As at December 31 (millions)	2008	2007
Capital assets		
Property, plant, equipment, other and intangible assets subject to amortization	\$ (156)	\$ (51)
Intangible assets with indefinite lives	(830)	(746)
Partnership income unallocated for income tax purposes	(556)	(631)
Net pension and share-based compensation amounts	(306)	(219)
Reserves not currently deductible	70	71
Losses available to be carried forward	44	18
Other	20	6
	\$ (1,714)	\$ (1,552)

Presented on the Consolidated Statements of Financial Position as:

Future income tax liability		
Current	\$ (459)	\$ (504)
Non-current	(1,255)	(1,048)
Net future income tax asset (liability)	\$ (1,714)	\$ (1,552)

The Company expects to be able to utilize its non-capital losses prior to expiry.

The Company has net capital losses and such losses may only be applied against realized taxable capital gains. The Company has included a net capital loss carry-forward of \$606 million (2007 – \$618 million) in its Canadian income tax returns. During the year ended December 31, 2008, the Company recognized the benefit of \$19 million (2007 – \$7 million) in net capital losses. Of the net capital losses carried forward, as at December 31, 2008, \$604 million (2007 – \$604 million) have been denied on audit by the Canada Revenue Agency and the Company is considering various courses of action with a view to confirming all or a part of such net capital losses.

The Company conducts research and development activities, which are eligible to earn Investment Tax Credits. During the year ended December 31, 2008, the Company recorded Investment Tax Credits of \$12 million (2007 – \$11 million), \$8 million (2007 – \$3 million) of which was recorded as a reduction of capital and the balance of which was recorded as a reduction of Operations expense.

10

per share amounts

Summary schedule and review of numerators and denominators used in calculating per share amounts and related disclosures

Basic net income per Common Share and Non-Voting Share is calculated by dividing Common Share and Non-Voting Share income by the total weighted average Common Shares and Non-Voting Shares outstanding during the period. Diluted net income per Common Share and Non-Voting Share is calculated to give effect to share option awards.

The following table presents the reconciliations of the denominators of the basic and diluted per share computations. Net income equalled diluted Common Share and Non-Voting Share income for all periods presented.

Years ended December 31 (millions)	2008	2007
Basic total weighted average Common Shares and Non-Voting Shares outstanding	320	332
Effect of dilutive securities		
Share option awards	2	2
Diluted total weighted average Common Shares and Non-Voting Shares outstanding	322	334

For the year ended December 31, 2008, certain outstanding share option awards, in the amount of 6 million (2007 – 1 million), were not included in the computation of diluted income per Common Share and Non-Voting Share because the share option awards' exercise prices were greater than the average market price of the Common Shares and Non-Voting Shares during the reported periods.

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dividends per share

Summary schedule of dividends declared

Years ended December 31 (millions except per share amounts)	2008			2007		
	Declared effective	Paid to shareholders	Total	Declared effective	Paid to shareholders	Total
Dividend per Common Share and Non-Voting Share						
Dividend \$0.45 (2007 – \$0.375)	Mar. 11, 2008	Apr. 1, 2008	\$ 145	Mar. 9, 2007	Apr. 1, 2007	\$ 126
Dividend \$0.45 (2007 – \$0.375)	June 10, 2008	July 1, 2008	144	June 8, 2007	July 1, 2007	125
Dividend \$0.45 (2007 – \$0.375)	Sept. 10, 2008	Oct. 1, 2008	144	Sept. 10, 2007	Oct. 1, 2007	123
Dividend \$0.475 (2007 – \$0.45)	Dec. 11, 2008	Jan. 2, 2009	151	Dec. 11, 2007	Jan. 1, 2008	147
			\$ 584			\$ 521

On February 11, 2009, the Board of Directors declared a quarterly dividend of \$0.475 per share on the issued and outstanding Common Shares and Non-Voting Shares of the Company payable on April 1, 2009, to holders of record at the close of business

on March 11, 2009. The final amount of the dividend payment depends upon the number of Common Shares and Non-Voting Shares issued and outstanding at the close of business on March 11, 2009.

share-based compensation

Summary schedules and review of compensation arising from share option awards, restricted stock units and employee share purchase plan

(a) Details of share-based compensation expense

Reflected in the Consolidated Statements of Income and Other Comprehensive Income as Operations expense and the Consolidated Statements of Cash Flows are the following share-based compensation amounts:

Years ended December 31 (millions)	2008			2007		
	Operations expense	Associated operating cash outflows	Statement of cash flows adjustment	Operations expense	Associated operating cash outflows	Statement of cash flows adjustment
Share option awards ¹	\$ 18	\$ (15)	\$ 3	\$ 184	\$ (84)	\$ 100
Restricted stock units ²	34	(32)	2	29	(33)	(4)
Employee share purchase plan	36	(36)	—	34	(34)	—
	\$ 68	\$ (83)	\$ 5	\$ 247	\$ (151)	\$ 96

1. The expense recovery arising from share options with the net-cash settlement feature, net of cash-settled equity swap agreement effects (see Note 50), was \$ML (2007 – \$169).
2. The expense arising from restricted stock units was net of cash-settled equity swap agreement effects (see Note 50).

For the year ended December 31, 2008, the associated operating cash outflows in respect of share option awards include cash outflows arising from the cash-settled equity swap agreements of \$9 million (2007 – cash inflows of \$8 million). Similarly, for the year ended December 31, 2008, the associated operating cash outflows in respect of restricted stock units include cash outflows arising from hedging of \$9 million (2007 – cash inflows of \$5 million). For the year ended December 31, 2008, the income tax benefit arising from share-based compensation was \$22 million (2007 – \$85 million), as disclosed in Note 2. Net share-based compensation amounts are deductible for income tax purposes.

(b) Share option awards

The Company applies the fair value based method of accounting for share-based compensation awards granted to employees. Share option awards typically vest over a three-year period (the requisite service period), but may vest over periods of up to five years. The vesting method of share option awards, which is determined on or before the date of grant, may be either cliff or graded; all share option awards granted subsequent to 2004 have been cliff-vesting awards.

The weighted average fair value of share option awards granted, and the weighted average assumptions used in the fair value estimation at the time of grant, using the Black-Scholes model (a closed-form option pricing model), are as follows:

Years ended December 31	2008	2007
Share option award fair value, per share option	\$ 7.10	\$ 12.34
Risk free interest rate	3.6%	4.1%
Expected lives ¹ (years)	4.5	4.5
Expected volatility	24.3%	26.3%
Dividend yield	4.1%	2.7%

1. The maximum contractual term of the share option awards granted in 2008 and 2007 was seven years.

The risk free interest rate used in determining the fair value of the share option awards is based on a Government of Canada yield curve that is current at the time of grant. The expected lives of the share option awards are based on historical share option award exercise data of the Company. Similarly, expected volatility considers the historical

volatility of the Company's Non-Voting Shares. The dividend yield is the annualized dividend current at the date of grant divided by the share option award exercise price. Dividends are not paid on unexercised share option awards and are not subject to vesting.

If the weighted average assumptions for grants of share option awards that are reflected in the expense disclosures above been varied by 10% and 20% changes, the compensation cost arising from share option awards for the year ended December 31, 2008, would have varied as follows:

\$ in millions	Hypothetical change in assumptions ¹	
	10%	20%
Risk free interest rate	\$ –	\$ 1
Expected lives (years)	\$ 1	\$ 1
Expected volatility	\$ 2	\$ 3
Dividend yield	\$ 1	\$ 1

1. These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in a decreased amount, and unfavourable hypothetical changes in the assumptions result in an increased amount, of the compensation cost arising from share option awards. As the inputs to the Black-Scholes model are based on a 10% variance in assumptions, generalised conclusions about the relationship of the change in assumption to the change in fair value may not be linear; in particular, variations in expected lives are constrained by vesting periods and legal lives. Also, in this table, the effect of a variation in a particular assumption on the amount of the compensation cost arising from share option awards is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in risk free interest rates may result in increased dividend yields, which might magnify or counteract the sensitivities).

Some share option awards have a net-equity settlement feature.

As discussed further in Note 19, it is at the Company's option whether the exercise of a share option award is settled as a share option or settled using the net-equity settlement feature.

Substantially all of the Company's outstanding share option awards that were granted prior to January 1, 2005, have a net-cash settlement feature. The employee has the choice of exercising the net-cash settlement feature. The affected outstanding share option awards largely take on the characteristics of liability instruments rather than equity instruments. For the outstanding share option awards that were amended and which were granted subsequent to 2001, the minimum expense recognized for them will be their grant date fair values.

The Company entered into a cash-settled equity swap agreement that establishes a cap on the Company's cost associated with the affected outstanding share option awards. The following table sets out the number of affected outstanding share option awards and the composition of their capped exercise date fair values.

As at December 31, 2008

(\$ in millions except per affected outstanding share option awards)

	Affected share option awards granted for		
	Common Shares	Non-voting Shares	Total
	prior to 2002	after 2001	
Weighted average exercise price	\$ 35.65	\$ 30.51	\$ 21.72
Weighted average grant date fair value	—	—	6.70
	35.65	30.51	28.42
Weighted average incremental share-based compensation award expense arising from net-cash settlement feature	18.61	24.64	26.73
			24.62
Exercise date fair value capped by cash-settled equity swap agreement	\$ 54.26	\$ 55.15	\$ 55.15
			\$ 55.03
Affected share option awards outstanding	432,361	1,859,036	1,530,251
			3,321,648
Notional amount (Note 5(h))	\$ 7	\$ 80	\$ 90
			\$ 177

(c) Restricted stock units

The Company uses restricted stock units as a form of incentive compensation. Each restricted stock unit is equal in value to one Non-Voting Share and the dividends that would have arisen thereon had it been an issued and outstanding Non-Voting Share; the notional dividends are recorded as additional issuances of restricted stock units during the

life of the restricted stock unit. The restricted stock units become payable when vesting is completed. The restricted stock units typically vest over a period of 36 months (the requisite service period). The vesting method of restricted stock units, which is determined on or before the date of grant, may be either cliff or graded. The associated liability is normally cash-settled.

The following table presents a summary of the activity related to the Company's restricted stock units.

Years ended December 31	2008			2007		
	Number of restricted stock units		Weighted average grant date fair value	Number of restricted stock units		Weighted average grant date fair value
	Non-vested	Vested		Non-vested	Vested	
Outstanding, beginning of period						
Non-vested	1,398,091	—	\$ 49.19	1,518,613	—	\$ 40.99
Vested	—	31,136	48.74	—	37,251	38.85
Issued						
Initial award	997,219	—	43.73	576,233	—	58.01
In lieu of dividends	96,864	—	39.42	52,132	—	58.84
Vested	(859,646)	859,846	44.66	(662,437)	662,437	37.10
Settled in cash	—	(864,097)	44.64	—	(666,552)	36.80
Forfeited and cancelled	(125,958)	—	44.69	(86,450)	—	40.48
Outstanding, end of period						
Non-vested	1,506,370	—	\$ 48.15	1,398,091	—	\$ 49.19
Vested	—	26,885	50.10	—	31,136	48.74

With respect to certain issuances of restricted stock units, the Company entered into cash-settled equity forward agreements that fix the cost to the Company; that information, as well as a schedule of the Company's non-vested restricted stock units outstanding as at December 31, 2008, is set out in the following table.

	Number of fixed-cost restricted stock units	Cost fixed to the Company per restricted stock unit	Number of variable-cost restricted stock units	Total number of non-vested restricted stock units
Vesting in years ending December 31:				
2009	400,000	\$ 64.26		
	1,200,000	\$ 47.11		
	500,000		100,000	700,000
2010	600,000	\$ 46.02	100,000	700,000
	1,000,000		300,000	1,300,000

(d) Employee share purchase plan

The Company has an employee share purchase plan under which eligible employees can purchase Common Shares through regular payroll deductions by contributing between 1% and 10% of their pay. The Company contributed 45%, for employees up to a certain job classification, for every dollar contributed by an employee, to a maximum of 6% of employee pay; for more highly compensated job classifications, the Company contributed 40%. There are no vesting requirements and the Company records its contributions as a component of operating expenses.

During the fourth quarter of 2008, the Company reduced its contributions by 5% to 40% for employees up to a certain job classification and for more highly compensated job classifications the Company reduced its contributions by 5% to 35%.

Years ended December 31 (millions)	2008	2007
Employee contributions	\$ 88	\$ 81
Company contributions	36	34
	\$ 124	\$ 115

Under this plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. For the years ended December 31, 2008 and 2007, all Common Shares issued to employees under the plan were purchased on the market at normal trading prices.

(e) Unrecognized, non-vested share-based compensation

As at December 31, 2008, compensation cost related to non-vested share-based compensation that has not yet been recognized is set out in the following table and is expected to be recognized over a weighted average period of 1.7 years (2007 – 1.7 years).

As at December 31 (millions) ⁽¹⁾	2008	2007
Share option awards	\$ 22	\$ 23
Restricted stock units ⁽²⁾	29	32
	\$ 51	\$ 55

- (1) These disclosures are not likely to be representative of the effects on reported net income for future periods for the following reasons: these amounts reflect an estimate of forfeitures; these amounts do not reflect any provision for future awards; these amounts do not reflect any provision for changes in the intrinsic value of vested restricted stock units; these amounts do not reflect any provision for the impacts of future, if any, modification of share option awards allowing for net-cash settlement; and for non-vested restricted stock units, these amounts reflect intrinsic values as at the statement of financial position dates.
- (2) The compensation cost that has not yet been recognized in respect of non-vested restricted stock units is calculated based upon the intrinsic value of the non-vested restricted stock units as at the statement of financial position dates, net of the impacts of associated cash-settled equity forward agreements.

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employee future benefits

Summary and review of employee future benefits and related disclosures

The Company has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees. Other benefit plans include a TELUS Québec Inc. retiree healthcare plan. The benefit plan(s) in which an employee is a participant reflects the general development of the Company.

Pension Plan for Management and Professional Employees of TELUS Corporation: This defined benefit pension plan, which ceased accepting new participants on January 1, 2006, and which comprises approximately one-quarter of the Company's total accrued benefit obligation, provides a non-contributory base level of pension benefits. Additionally, on a contributory basis, employees can annually choose increased and/or enhanced levels of pension benefits over the base level of pension benefits. At an enhanced level of pension benefits, the defined benefit pension plan has indexation of 100% of a specified cost-of-living index, to an annual maximum of 2%. Pensionable remuneration is determined by the annualized average of the best sixty consecutive months.

TELUS Corporation Pension Plan: Management and professional employees in Alberta who joined the Company prior to January 1, 2001, and certain unionized employees are covered by this contributory defined benefit pension plan, which comprises slightly more than one-half of the Company's total accrued benefit obligation. The plan contains a supplemental benefit account which may provide indexation up to 70%

of the annual change of a specified cost-of-living index and pensionable remuneration is determined by the average of the best five years in the last ten years preceding retirement.

TELUS Québec Defined Benefit Pension Plan (formerly the TELUS Corporation Pension Plan for Employees of TELUS Communications (Québec) Inc.): Any employee not governed by a collective agreement in Quebec who joined the Company prior to April 1, 2006, any non-supervisory employee governed by a collective agreement prior to September 6, 2006, and certain other unionized employees are covered by this contributory defined benefit pension plan, which comprises approximately one-tenth of the Company's total accrued benefit obligation. The plan has no indexation and pensionable remuneration is determined by the average of the best four years.

TELUS Edmonton Pension Plan: This contributory defined benefit pension plan ceased accepting new participants on January 1, 1998. Indexation is 60% of the annual change of a specified cost-of-living index and pensionable remuneration is determined by the annualized average of the best sixty consecutive months.

Other defined benefit pension plans: In addition to the foregoing plans, the Company has non-registered, non-contributory supplementary defined benefit pension plans which have the effect of maintaining the earned pension benefit once the allowable maximums in the registered plans are attained. As is common with non-registered plans of this nature, these plans are funded only as benefits are paid.

The Company has three contributory, non-indexed pension plans arising from a pre-merger acquisition which comprise less than 1% of the Company's total accrued benefit obligation; these plans ceased accepting new participants in September 1989.

Other defined benefit plans: Other defined benefit plans, which are all non-contributory, are comprised of a disability income plan, a healthcare plan for retired employees and a life insurance plan. The healthcare plan for retired employees and the life insurance plan ceased accepting new participants effective January 1, 1997. In connection with the collective agreement signed in 2005, an external supplier commenced providing a new long-term disability plan effective January 1, 2006. The existing disability income plan will continue to provide payments to previously approved claimants and qualified eligible employees.

Telecommunication Workers Pension Plan: Certain employees in British Columbia are covered by a union pension plan. Contributions are determined in accordance with provisions of the negotiated labour contract and are generally based on employee gross earnings.

British Columbia Public Service Pension Plan: Certain employees in British Columbia are covered by a public service pension plan. Contributions are determined in accordance with provisions of labour contracts negotiated by the Province of British Columbia and are generally based on employee gross earnings.

Defined contribution pension plan: During the latter half of 2006, the Company revised its defined contribution pension plan offerings for 2007. Effective January 1, 2007, the Company offered one defined contribution pension plan, which is contributory, and is the only Company-sponsored pension plan available to non-unionized and certain unionized employees joining the Company after that date. Generally, employees can annually choose to contribute to the plan at a rate of between 3% and 6% of their pensionable earnings. The Company will match 100% of the contributions of the employees up to 5% of their pensionable earnings and will match 80% of employee contributions greater than that.

Contributions as a percentage of pensionable earnings	2007 and 2008	
	Minimum	Maximum
Employee contribution ⁽¹⁾	3.0%	6.0%
Employer contribution	3.0%	5.8%
Total contribution ⁽²⁾	6.0%	11.8%

(1) Generally, membership in the defined contribution pension plan is voluntary until an employee's third year service anniversary.

(2) In the event that annual contributions exceed allowable maximums, excess amounts are contributed to a non-registered supplementary defined contribution pension plan.

(a) Defined benefit plans

Information concerning the Company's defined benefit plans, in aggregate, is as follows:

(millions)	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Accrued benefit obligation:				
Balance at beginning of year	\$ 6,347	\$ 6,580	\$ 73	\$ 72
Current service cost	122	136	—	—
Interest cost	346	327	—	7
Benefits paid (c)	(298)	(282)	(6)	(6)
Actuarial loss (gain)	(1,280)	(408)	(3)	—
Plan amendments	6	27	—	—
Transfers out	—	(33)	—	—
Balance at end of year (d)-(e)	5,243	6,347	64	73
Plan assets (g):				
Fair value at beginning of year	6,913	6,843	37	41
Actual return on plan assets	(1,101)	256	1	1
Employer contributions (h)	102	92	2	1
Employee contributions	38	37	—	—
Benefits paid (c)	(298)	(282)	(6)	(6)
Transfers out	—	(33)	—	—
Fair value at end of year	5,654	6,913	34	37
Funded status – plan surplus (deficit)	411	566	(30)	(36)
Unamortized net actuarial loss (gain)	938	629	(12)	(10)
Unamortized past service costs	33	31	—	—
Unamortized transitional obligation (asset)	(150)	(196)	1	2
Accrued benefit asset (liability)	\$ 1,232	\$ 1,030	\$ (41)	\$ (44)

In 2001, the Company sold substantially all of the TELUS Advertising Services directory business and the TELUS Québec directory business. As a result of this transaction, the pension obligation relating to the former TELUS Advertising Services employees, contained within the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan, were to be transferred upon receipt of the requisite regulatory approvals; such approvals were received November 14, 2007. The TELUS Corporation Pension Plan pension obligation of \$17 million and the TELUS Edmonton Pension Plan pension obligation of \$4 million have been actuarially determined as at July 31, 2001. In accordance with the sale agreement, TELUS Corporation Pension Plan assets of \$17 million, plus interest accrued to November 30, 2007, of \$9 million, were transferred along with the pension obligation; the corresponding amounts in respect of the TELUS Edmonton Pension Plan were \$4 million, plus interest accrued to November 30, 2007, of \$2 million. Interest accrued, at 7% per annum, up to the date that the assets were transferred.

The accrued benefit asset (liability) is reflected in the Consolidated Statements of Financial Position as follows:

As at December 31 (millions)	2008	2007
Pension benefit plans	\$ 1,232	\$ 1,030
Other benefit plans	(41)	(44)
	\$ 1,191	\$ 986

Presented on the Consolidated Statements of Financial Position as:		
Deferred charges (Note 21(b))	\$ 1,401	\$ 1,194
Other long-term liabilities (Note 21(b))	(210)	(208)
	\$ 1,191	\$ 986

The measurement date used to determine the plan assets and accrued benefit obligation was December 31.

(b) Defined benefit plans – cost (recovery)

The Company's net defined benefit plan costs (recoveries) were as follows:

Years ended December 31	2008			2007		
(millions)	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period
Pension benefit plans						
Current service cost (employer portion)	\$ 84	\$ –	\$ 84	\$ 99	\$ –	\$ 99
Interest cost	346	–	346	327	–	327
Return on plan assets	1,101	(1,596)	(495)	(256)	(236)	(492)
Past service costs	–	4	4	–	1	1
Actuarial loss (gain)	(1,280)	1,287	7	(408)	419	11
Amortization of transitional asset	–	(46)	(46)	–	(42)	(42)
	\$ 251	\$ (351)	\$ (100)	\$ (238)	\$ 142	\$ (96)

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

Years ended December 31	2008			2007		
(millions)	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period
Other benefit plans						
Interest cost	\$ –	\$ –	\$ –	\$ 7	\$ –	\$ 7
Return on plan assets	(1)	–	(1)	(1)	–	(1)
Actuarial loss (gain)	(3)	1	(2)	–	(3)	(3)
Amortization of transitional obligation	–	1	1	–	1	1
	\$ (4)	\$ 2	\$ (2)	\$ 6	\$ (2)	\$ 4

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

(c) Benefit payments

Estimated future benefit payments from the Company's defined benefit plans, calculated as at December 31, 2008, are as follows:

Years ending December 31 (millions)	Pension benefit plans	Other benefit plans
2009	\$ 318	\$ 6
2010	325	6
2011	343	6
2012	359	6
2013	376	6
2014–2018	2,106	27

(d) Disaggregation of defined benefit pension plan funding status

Accrued benefit obligations are the actuarial present values of benefits attributed to employee services rendered to a particular date.

The Company's disaggregation of defined benefit pension plans surplus and deficits at year-end are as follows:

As at December 31 (millions)	2008			2007		
	Accrued benefit obligation	Plan assets	Funded status – plan surplus (deficit)	Accrued benefit obligation	Plan assets	Funded status – plan surplus (deficit)
Pension plans that have plan assets in excess of accrued benefit obligations	\$ 4,616	\$ 5,177	\$ 561	\$ 6,174	\$ 6,913	\$ 739
Pension plans that have accrued benefit obligations in excess of plan assets						
Funded	486	477	(9)	–	–	–
Unfunded	141	–	(141)	173	–	(173)
	627	477	(150)	173	–	(173)
(see (a))	\$ 5,243	\$ 5,654	\$ 411	\$ 6,347	\$ 6,913	\$ 566

As at December 31, 2008 and 2007, undrawn Letters of Credit, further discussed in Note 19(d), secured certain of the unfunded defined benefit pension plans.

(e) Disaggregation of other defined benefit plan funding status

Accrued benefit obligations are the actuarial present values of benefits attributed to employee services rendered to a particular date.

The Company's disaggregation of other defined benefit plans surplus and deficits at year-end are as follows:

As at December 31 (millions)	2008			2007		
	Accrued benefit obligation	Plan assets	Funded status – plan surplus (deficit)	Accrued benefit obligation	Plan assets	Funded status – plan surplus (deficit)
Other benefit plans that have plan assets in excess of accrued benefit obligations	\$ 26	\$ 34	\$ 8	\$ 30	\$ 37	\$ 7
Unfunded other benefit plans that have accrued benefit obligations in excess of plan assets	38	–	(38)	43	–	(43)
(see (a))	\$ 64	\$ 34	\$ (30)	\$ 73	\$ 37	\$ (36)

(f) Accumulated pension benefit obligations

Accumulated benefit obligations differ from accrued benefit obligations in that accumulated benefit obligations do not include assumptions about future compensation levels. The Company's disaggregation of defined pension benefit plans accumulated benefit obligations and plan assets at year-end are as follows:

As at December 31 (millions)	2008			2007		
	Accumulated benefit obligation	Plan assets	Difference	Accumulated benefit obligation	Plan assets	Difference
Pension plans that have plan assets in excess of accumulated benefit obligations	\$ 4,899	\$ 5,654	\$ 755	\$ 5,830	\$ 6,913	\$ 1,083
Pension plans that have accumulated benefit obligations in excess of plan assets ⁽¹⁾	129	–	(129)	160	–	(160)
	\$ 5,028	\$ 5,654	\$ 626	\$ 5,990	\$ 6,913	\$ 923

(1) For both years presented, only unfunded pension plans had accumulated benefit obligations in excess of plan assets.

(g) Plan investment strategies and policies

The Company's primary goal for the defined benefit plans is to ensure the security of the retirement income and other benefits of the plan members and their beneficiaries. A secondary goal of the Company is to maximize the long-term rate of return of the defined benefit plans' assets within a level of risk acceptable to the Company.

Risk management: The Company considers absolute risk (the risk of contribution increases, inadequate plan surplus and unfunded obligations) to be more important than relative return risk. Accordingly, the defined benefit plans' designs, the nature and maturity of defined benefit obligations and characteristics of the plans' memberships significantly influence investment strategies and policies. The Company manages risk through specifying allowable and prohibited investment types, setting diversification strategies and determining target asset allocations.

Allowable and prohibited investment types: Allowable and prohibited investment types, along with associated guidelines and limits, are set out in each fund's *Pension Benefits Standards Act, 1985* required Statement of Investment Policies and Procedures (SIP&P), which is reviewed and approved annually by the designated governing fiduciary. The SIP&P guidelines and limits are further governed by the *Pension Benefits Standards Regulations, 1985*'s permitted investments and lending limits. As well as conventional investments, each fund's SIP&P may provide for the use of derivative products to facilitate investment operations and to manage risk provided that no short position is taken, no use of leverage is made and there is no violation of guidelines and limits established in the SIP&P. Internally managed funds are prohibited from increasing grandfathered investments in securities of the Company; grandfathered investments were made prior to the merger of BC TELECOM Inc. and TELUS Corporation, the Company's predecessors. Externally managed funds are permitted to invest in securities of the Company, provided that the investments are consistent with the funds' mandate and are in compliance with the relevant SIP&P.

Diversification: The Company's strategy for equity security investments is to be broadly diversified across individual securities, industry sectors and geographical regions. A meaningful portion (15–25%

of total plans' assets) of the investment in equity securities is allocated to foreign equity securities with the intent of further increasing the diversification of the plans' assets. Debt securities may include a meaningful allocation to mortgages with the objective of enhancing cash flow and providing greater scope for the management of the bond component of the plans' assets. Debt securities also may include real return bonds to provide inflation protection, consistent with the indexed nature of some defined benefit obligations. Real estate investments are used to provide diversification of plans' assets, potential long-term inflation hedging and comparatively stable investment income.

Relationship between plan assets and benefit obligations: With the objective of lowering its long-term costs of defined benefit plans, the Company purposely mismatches plan assets and benefit obligations. This mismatching is implemented by including equity investments in the long-term asset mix as well as fixed income securities and mortgages with durations that differ from the benefit obligations. Compensation for liquidity issues that may have otherwise arisen from mismatching of plan assets and benefit obligations comes from broadly diversified investment holdings (including cash and short-term investment holdings) and cash flows from dividends, interest and rents from diversified investment holdings.

Asset allocations: Information concerning the Company's defined benefit plans' target asset allocation and actual asset allocation is as follows:

	Pension benefit plans			Other benefit plans		
	Target allocation	Percentage of plan assets at end of year		Target allocation	Percentage of plan assets at end of year	
	2009	2008	2007	2009	2008	2007
Equity securities	45–55%	47%	58%	–	–	–
Debt securities	35–45%	45%	36%	–	–	–
Real estate	4–8%	6%	5%	–	–	–
Other	0–2%	2%	1%	100%	100%	100%
		100%	100%		100%	100%

At December 31, 2008, shares of TELUS Corporation accounted for less than 1% of the assets held in the pension and other benefit trusts administered by the Company.

(h) Employer contributions

The determination of the minimum funding amounts for substantially all of the Company's registered defined benefit pension plans is governed by the *Pension Benefits Standards Act, 1985*, which requires that, in addition to current service costs being funded, both going-concern and solvency valuations be performed on a specified periodic basis. Any excess of plan assets over plan liabilities determined in the going-concern valuation reduces the Company's minimum funding requirement of current service costs, but may not reduce the requirement to an amount less than the employees' contributions. The going-concern valuation generally determines the excess (if any) of a plan's assets over its liabilities, determined on a projected benefit basis. The solvency valuation generally requires that a plan's liabilities, determined on the basis that the plan is terminated on the valuation date, in excess of its assets (if any) be funded, at a minimum, in equal annual amounts over a period not exceeding five years.

The best estimates of fiscal 2009 employer contributions to the Company's defined benefit plans are approximately \$211 million and \$2 million for defined benefit pension plans and other defined benefit

plans, respectively. These estimates are based upon the mid-year 2008 annual funding reports that were prepared by actuaries using December 31, 2007, actuarial valuations. The funding reports are based on the pension plans' fiscal years, which are calendar years. The next annual funding valuations are expected to be prepared mid-year 2009.

(i) Assumptions

Management is required to make significant estimates about certain actuarial and economic assumptions to be used in determining defined benefit pension costs, accrued benefit obligations and pension plan assets. These significant estimates are of a long-term nature, which is consistent with the nature of employee future benefits.

The discount rate, which is used to determine the accrued benefit obligation, is based on the yield on long-term, high-quality fixed term investments, and is set annually. The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by the plans' target asset allocations. Future increases in compensation are based upon the current benefits policies and economic forecasts.

The significant weighted average actuarial assumptions arising from these estimates and adopted in measuring the Company's accrued benefit obligations are as follows:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Discount rate used to determine:				
Net benefit costs for the year ended December 31	5.50%	5.00%	5.36%	4.86%
Accrued benefit obligation as at December 31	7.25%	5.50%	7.11%	5.36%
Expected long-term rate of return ⁽¹⁾ on plan assets used to determine:				
Net benefit costs for the year ended December 31	7.25%	7.25%	3.00%	3.00%
Accrued benefit obligation as at December 31	7.25%	7.25%	3.00%	3.00%
Rate of future increases in compensation used to determine:				
Net benefit costs for the year ended December 31	3.00%	3.00%	—	—
Accrued benefit obligation as at December 31	3.00%	3.00%	—	—

(1) The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by the plans' target asset allocations (see (g)). Forecasted returns arise from the Company's ongoing review of trends, economic conditions, data provided by actuaries and updating of underlying historical information.

2008 sensitivity of key assumptions	Pension benefit plans		Other benefit plans	
	Change in obligation	Change in expense	Change in obligation	Change in expense
(millions)				
Impact of hypothetical 25 basis point decrease ⁽¹⁾ in:				
Discount rate	\$ 151	\$ 10	\$ 1	\$ —
Expected long-term rate of return on plan assets		\$ 17		\$ —
Rate of future increases in compensation	\$ 19	\$ 4	\$ —	\$ —

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in decreased amounts, and unfavourable hypothetical changes in the assumptions result in increased amounts, of the obligations and expenses. Changes in amounts based on a 25 basis point variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. Also, in this table, the effect of a variation in a particular assumption on the change in obligation or change in expense is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in discount rates may result in increased expectations about the long-term rate of return on plan assets), which might magnify or counteract the sensitivities.

(j) Defined contribution plans

The Company's total defined contribution pension plan costs recognized were as follows:

Years ended December 31 (millions)	2008	2007
Union pension plan and public service pension plan contributions	\$ 31	\$ 31
Other defined contribution pension plans	32	26
	\$ 63	\$ 57



accounts receivable

Summary schedule and review of arm's-length securitization trust transactions and related disclosures

On July 26, 2002, TELUS Communications Inc., a wholly owned subsidiary of TELUS, entered into an agreement, which was amended September 30, 2002, March 1, 2006, November 30, 2006, March 31, 2008, and September 12, 2008, with an arm's-length securitization trust associated with a major Schedule I bank under which TELUS Communications Inc. is able to sell an interest in certain of its trade receivables up to a maximum of \$650 million. This revolving-period securitization agreement had an initial term ending July 18, 2007; the November 30, 2006, amendment resulted in the term being extended to July 18, 2008; the March 31, 2008, amendment resulted in the term being extended to July 17, 2009.

As a result of selling the interest in certain of the trade receivables on a fully serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the expected life of the trade receivables.

TELUS Communications Inc. is required to maintain at least a BBB (low) credit rating by Dominion Bond Rating Service or the securitization trust may require the sale program to be wound down prior to the end of the term; at December 31, 2008, the rating was A (low).

As at December 31 (millions)	2008	2007
Total managed portfolio	\$ 1,272	\$ 1,222
Securitized receivables	(346)	(570)
Retained interest in receivables sold	40	59
Receivables held	\$ 966	\$ 711

For the year ended December 31, 2008, the Company recognized composite losses of \$11 million (2007 – \$21 million) on the sale of receivables arising from the securitization.

Cash flows from the securitization were as follows:

Years ended December 31 (millions)	2008	2007
Cumulative proceeds from securitization, beginning of period	\$ 500	\$ 500
Proceeds from new securitizations	150	720
Securitization reduction payments	(350)	(720)
Cumulative proceeds from securitization, end of period	\$ 300	\$ 500
Proceeds from collections reinvested in revolving-period securitizations	\$ 3,105	\$ 3,947
Proceeds from collections pertaining to retained interest	\$ 382	\$ 477

The key economic assumptions used to determine the loss on sale of receivables, the future cash flows and fair values attributed to the retained interest, as further discussed in Note 1(n), were as follows:

Years ended December 31	2008	2007
Expected credit losses as a percentage of accounts receivable sold	1.2%	1.1%
Weighted average life of the receivables sold (days)	33	37
Effective annual discount rate	3.5%	5.0%
Servicing	1.0%	1.0%

Generally, the sold trade receivables do not experience prepayments.

At December 31, 2008, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% changes in those assumptions were as follows:

(\$ in millions)	2008	10%	20%
Carrying amount/fair value of future cash flows	\$ 40		
Expected credit losses as a percentage of accounts receivable sold		\$ -	\$ 1
Weighted average life of the receivables sold (days)		\$ -	\$ -
Effective annual discount rate		\$ -	\$ -

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased value, and unfavourable hypothetical changes in the assumptions result in a decreased value, of the retained interest in receivables sold. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in increased credit losses), which might magnify or counteract the sensitivities.

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capital assets

Summary schedule of items comprising capital assets

(a) Capital assets, net

As at December 31 (millions)	2008			2007		
	Cost	Accumulated depreciation and amortization	Net book value	Cost	Accumulated depreciation and amortization	Net book value
Property, plant, equipment and other						
Network assets	\$ 20,609	\$ 15,119	\$ 5,490	\$ 19,848	\$ 14,345	\$ 5,503
Buildings and leasehold improvements	2,110	1,232	878	1,993	1,113	880
Assets under capital lease	15	9	6	18	12	6
Other	1,681	1,272	409	1,549	1,165	384
Land	49	-	49	48	-	48
Assets under construction	485	-	485	375	-	375
	24,949	17,632	7,317	23,831	16,635	7,196
Intangible assets subject to amortization						
Subscriber base	245	46	199	250	44	206
Customer contracts and the related customer relationships	138	13	125	-	-	-
Software	2,082	1,314	768	1,761	1,243	518
Access to rights-of-way and other	103	75	28	118	67	51
Assets under construction	197	-	197	184	-	184
	2,765	1,448	1,317	2,313	1,354	959
Intangible assets with indefinite lives						
Spectrum licences ⁽¹⁾	4,867	1,018	3,849	3,985	1,018	2,967
	\$ 32,581	\$ 20,098	\$ 12,483	\$ 30,129	\$ 19,007	\$ 11,122

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002.

The following table presents items included in capital expenditures and acquisitions. Additions of intangible assets subject to amortization include amounts reclassified from assets under construction.

Years ended December 31 (millions)	2008	2007
Additions of intangible assets		
Subject to amortization		
– Included in capital expenditures	\$ 332	\$ 513
– Included in acquisitions (see Note 16(b))	326	–
	658	513
With indefinite lives	882	–
	\$ 1,540	\$ 513

The following table presents items included in capital expenditures.

Years ended December 31 (millions)	2008	2007
Capitalized internal labour costs	\$ 371	\$ 335

(b) Intangible assets subject to amortization

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at December 31, 2008, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2009	\$ 344
2010	252
2011	152
2012	81
2013	66

(c) Intangible assets with indefinite lives

As referred to in Note 1(b) and Note 1(f), the carrying value of intangible assets with indefinite lives, and goodwill, is periodically tested for impairment and this test represents a significant estimate for the Company. There is a material degree of uncertainty with respect to this estimate given the necessity of making key economic assumptions about the future. The Company considers a range of reasonably possible amounts and decides upon an amount that represents management's best estimate. If the future was to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to be materially adversely affected, the Company could potentially experience future material impairment charges in respect of its intangible assets with indefinite lives and goodwill.

Consistent with current industry-specific valuation methods, a combination of the discounted cash flow approach, the market-comparable approach and analytical review of industry and Company-specific facts is used in determining the fair value of its spectrum licences and goodwill. The discounted cash flow methodology uses management's best estimate of the cash flows and a discount rate established by calculating a weighted average cost of capital for each reporting unit. The market-comparable approach uses current (at the time of test) market consensus estimates and equity trading prices for U.S. and Canadian firms in the same industry. In addition, the Company ensures that the combination of the valuations of the reporting units is reasonable based on current market values of the Company.

Sensitivity testing was conducted as a part of the December 2008 annual test. Stress testing included moderate declines in annual cash flows with all other assumptions being held constant; this too resulted in the Company continuing to be able to recover the carrying value of its intangible assets with indefinite lives and goodwill for the foreseeable future.



goodwill

Summary schedule of goodwill and review of reported fiscal year acquisitions from which goodwill arose

(a) Changes in goodwill

Years ended December 31 (millions)	2008	2007
Balance, beginning of period	\$ 3,168	\$ 3,170
Goodwill arising from current period acquisition	396	–
Other	3	–
Foreign exchange on goodwill of self-sustaining foreign operations	(3)	(2)
Balance, end of period	\$ 3,564	\$ 3,168

(b) Business acquisitions

Emergis Inc.: On November 29, 2007, the Company announced that it had agreed to offer to acquire 100% of the outstanding shares of Emergis Inc. for \$8.25 per common share by way of take-over bid (in total, an initially estimated purchase price of approximately \$763 million on a fully diluted basis). Emergis Inc. is a business process outsourcer, based in Canada, with a focus on healthcare and financial services sectors, two of the four key industries the Company's Business Solutions team has invested in developing expertise in (the other two being

energy and the public sector). The Company believes that its national sales and marketing capabilities will enhance growth in Emergis Inc. solutions, particularly in light of the complementary nature of the parties' businesses and customer bases.

As at December 31, 2007, the Company had made market purchases of 1,017,000 Emergis Inc. common shares for \$8 million, as disclosed in the Company's press releases. On January 17, 2008, the Company drew \$500 million of bankers' acceptances on its credit facilities, issued incremental commercial paper and, including utilization of cash on hand, remitted \$743 million to the depository in payment for:

- the 84,876,494 Emergis Inc. common shares (representing approximately 94% of the outstanding common shares of Emergis Inc. on a fully diluted basis) that were validly deposited to the Company's offer; and
- the remaining outstanding common shares of Emergis Inc. which the Company acquired on January 18, 2008, utilizing the compulsory acquisition provisions of the *Canada Business Corporations Act*.

The primary factor that contributed to a purchase price that resulted in the recognition of goodwill is the degree of net tangible assets and net intangible assets relative to the earnings capacity of the acquired business. Emergis Inc.'s results of operations are included in the

Company's Wireline segment effective January 17, 2008. The amounts assigned to goodwill are not expected to be deductible for tax purposes. Acquired intangible assets are not expected to have significant residual values.

As at January 16, 2008 (millions)	Preliminary ⁽¹⁾ purchase price amount assigned	Adjustment	Purchase price amount assigned
Assets			
Current assets	\$ 113	\$ 1	\$ 114
Capital assets			
Property, plant, equipment and other	19	(1)	18
Intangible assets subject to amortization ⁽²⁾			
Customer contracts and the related customer relationships	135	3	138
Software	186	—	186
Other	2	—	2
	323	3	326
	342	2	344
Other assets	5	1	6
Goodwill	366	30	396
	\$ 826	\$ 34	\$ 860
Liabilities			
Current liabilities	\$ 52	\$ 40	\$ 92
Long-term debt	3	(1)	2
Other long-term liabilities	1	3	4
Future income taxes	25	(10)	15
	81	32	113
Purchase price			
Market purchase of shares prior to closing	8	—	8
Remitted to depository (net of amounts for market purchase of shares prior to closing)	735	—	735
	743	—	743
Direct costs of the business combination	2	2	4
	745	2	747
	\$ 826	\$ 34	\$ 860

(1) The purchase price allocation had not been finalized as of the date of issuance of the Company's December 31, 2007, consolidated financial statements, when these amounts were first reported. As is customary in a business acquisition transaction, until the time of acquisition of control, the Company did not have full access to Emergis Inc.'s books and records. Upon having sufficient time to adequately review Emergis Inc.'s books and records, the Company finalized its purchase price allocation.

(2) Customer contracts and the related customer relationships and software are being amortized over amortization periods of 10 years and 5 years, respectively.

Fastvibe Corporation: No goodwill addition arose from the January 29, 2008, \$4 million cash acquisition of Fastvibe Corporation, a provider of web streaming solutions. Fastvibe Corporation's results of operations are included in the Company's Wireline segment effective January 29, 2008.

Pro forma supplemental information: The following pro forma supplemental information represents certain results of operations as if the business acquisitions noted above had been completed as at the beginning of the fiscal years presented.

Years ended December 31	2008		2007	
(millions except per share amounts)	As reported	Pro forma	As reported	Pro forma
Operating revenues	\$ 9,653	\$ 9,660	\$ 9,074	\$ 9,268
Net income	\$ 1,128	\$ 1,123	\$ 1,258	\$ 1,215
Net income per Common Share and Non-Voting Share				
— Basic	\$ 3.52	\$ 3.50	\$ 3.79	\$ 3.66
— Diluted	\$ 3.51	\$ 3.49	\$ 3.76	\$ 3.64

The pro forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro forma supplemental information is not necessarily indicative of the Company's consolidated financial results in future periods or the results that actually would have been realized had the business acquisition been

completed at the beginning of the periods presented. The pro forma supplemental information includes incremental intangible asset amortization, financing and other charges as a result of the acquisition, net of the related tax effects.

(c) Other transactions; other

TELUS International Philippines Inc.: In 2005, the Company acquired, for cash, an effective 52.5% economic interest in TELUS International Philippines Inc., a business process outsourcing company. The acquisition was effected in two steps: one on February 15, 2005, for an effective 49% economic interest and one on May 13, 2005, for an effective 3.5% economic interest. The initial effective 49% economic interest resulted in the Company controlling TELUS International Philippines Inc. as the Company controlled, but did not wholly own, an intermediate holding company which, in turn, controlled, but did not wholly own, TELUS International Philippines Inc. This investment was made with a view to enhancing the Company's competitiveness in contact centre offerings.

In the second half of 2006, the Company increased its total effective economic interest in the entity to 97.4% and in the third quarter of 2008, to 100%. None of the resulting 2008 goodwill addition of \$3 million arising from the \$3 million transaction is expected to be deductible for tax purposes.

The primary factor that contributed to a purchase price that resulted in the recognition of goodwill is the low degree of net tangible assets in the industry relative to the market value of established Asian operations. TELUS International Philippines Inc.'s results have been included in the Company's Consolidated Statements of Income and Other Comprehensive Income and the Company's Wireline segment since the acquisition of control on February 15, 2005.

Transactel Barbados, Inc.: On December 22, 2008, the Company acquired a direct 29.99% economic interest in Transactel Barbados Inc., a business process outsourcing and call centre company with facilities in three Central American countries, for \$19 million cash. Additional

contingent consideration could become payable depending upon Transactel Barbados Inc. earnings for the year ending December 31, 2011.

The Company has provided two written put options to the vendor of Transactel Barbados Inc. The first written put option becomes exercisable on December 31, 2009, expiring on June 30, 2011, and allows the vendor to put up to a further 21.01% economic interest to the Company (the Company's effective economic interest in Transactel Barbados Inc. would become 51% assuming the written put option is exercised in full). The second written put option becomes exercisable on December 31, 2010, with no expiry, and allows the vendor to put whatever interest is not put under the first written put option plus up to an incremental 44% economic interest to the Company (the Company's effective economic interest in Transactel Barbados Inc. would become 95% assuming that the written put option is exercised in full). The written put options set out the share pricing methodology, which is dependent upon Transactel Barbados Inc. future earnings.

The vendor has provided the Company with two purchased call options which substantially mirror the written put options except that they are only exercisable upon achieving certain business growth targets.

The Company currently accounts for its investment in Transactel Barbados Inc. using the equity method.

The investment was made with a view to enhancing the Company's business process outsourcing capacity particularly regarding Spanish language capabilities.

Additional disclosure: As at December 31, 2008, goodwill attributable to the Company's Wireline segment and Wireless segment was \$827 million (2007 – \$431 million) and \$2,737 million (2007 – \$2,737 million), respectively.



short-term obligations

Summary review of bilateral bank facilities

On March 3, 2008, TELUS Corporation entered into a new \$700 million 364-day revolving credit facility with a syndicate of financial institutions, expiring March 2, 2009; on December 15, 2008, the facility was extended to an expiry date of March 1, 2010. The credit facility is unsecured and bears interest at prime rate or bankers'

acceptance rate (all such terms as used or defined in the credit facility), plus applicable margins. The credit facility contains customary representations, warranties and covenants that are substantively the same as those for TELUS Corporation's long-term credit facility, as set out in Note 18(d).

As at December 31 (millions)	2008		2007	
	Bilateral bank facilities	364-day revolving credit facility	Total	Bilateral bank facilities
Net available	\$ 64	\$ 700	\$ 764	\$ 74
Drawn	11	–	11	–
Outstanding, undrawn letters of credit	3	–	3	3
Gross available	\$ 78	\$ 700	\$ 778	\$ 77

(a) Details of long-term debt

As at December 31 (\$ in millions)

Series	Rate of interest	Maturity	2008	2007
TELUS Corporation Notes				
U.S. ⁽¹⁾	8.00% ⁽¹⁾	June 2011	\$ 2,333	\$ 1,892
CB	5.00% ⁽¹⁾	June 2013	299	298
CC	4.50% ⁽¹⁾	March 2012	299	299
CD	4.95% ⁽¹⁾	March 2017	688	687
CE	5.95% ⁽¹⁾	April 2015	497	—
			4,116	3,176
TELUS Corporation Commercial Paper	2.80%	Through March 2009	431	585
TELUS Corporation Credit Facility	2.32%	May 2012	978	—
TELUS Communications Inc. Debentures				
1	12.00% ⁽¹⁾	May 2010	50	50
2	11.90% ⁽¹⁾	November 2015	124	124
3	10.65% ⁽¹⁾	June 2021	173	173
5	9.65% ⁽¹⁾	April 2022	245	245
B	8.80% ⁽¹⁾	September 2025	198	197
			790	789
TELUS Communications Inc. First Mortgage Bonds				
U	11.50% ⁽¹⁾	July 2010	30	30
Capital leases issued at varying rates of interest from 4.1% to 13.0% and maturing on various dates up to 2013			5	6
Other			2	3
Long-Term Debt			6,352	4,589
Less: Current maturities			4	5
Long-Term Debt – non-current			\$ 6,348	\$ 4,584

(1) Interest is payable semi-annually.

(2) Principal face value of notes is U.S.\$1,925 million (2007 – U.S.\$1,925 million).

(b) TELUS Corporation notes

The notes are senior, unsecured and unsubordinated obligations of the Company and rank equally in right of payment with all existing and future unsecured, unsubordinated obligations of the Company, are senior in right of payment to all existing and future subordinated indebtedness of the Company, and are effectively subordinated to all existing and future obligations of, or guaranteed by, the Company's subsidiaries.

The indentures governing the notes contain certain covenants which, among other things, place limitations on the ability of TELUS and certain of its subsidiaries to: grant security in respect of indebtedness, enter into sale and lease-back transactions and incur new indebtedness.

2011 Cross Currency Interest Rate Swap Agreements: With respect to the 2011 (U.S. Dollar) Notes, U.S.\$1.9 billion (2007 – U.S.\$1.9 billion) in aggregate, the Company entered into cross currency interest rate swap agreements which effectively convert the principal repayments and

interest obligations to Canadian dollar obligations with an effective fixed interest rate of 8.493% and an effective fixed economic exchange rate of \$1.5327.

The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. TELUS has not required collateral or other security from the counterparties due to its assessment of their creditworthiness.

The Company translates items such as the U.S. Dollar notes into equivalent Canadian dollars at the rate of exchange in effect at the statement of financial position date. The swap agreements at December 31, 2008, comprised a net derivative liability of \$778 million (2007 – \$1,179 million), as set out in Note 5(h). The asset value of the swap agreements increases (decreases) when the statement of financial position date exchange rate increases (decreases) the Canadian dollar equivalent of the U.S. Dollar notes.

Series	Issued	Issue price	Principal face amount		Redemption present value spread (basis points) ⁽¹⁾
			Originally issued	Outstanding	
8.00% (U.S. Dollar) Notes due 2011	May 2001	U.S.\$994.78	U.S.\$2.0 billion	U.S.\$1.9 billion	30
5.00% Notes, Series CB	May 2006	\$998.80	\$300 million	\$300 million	16
4.50% Notes, Series CC	March 2007	\$999.91	\$300 million	\$300 million	15
4.95% Notes, Series CD	March 2007	\$999.53	\$700 million	\$700 million	24
5.95% Notes, Series CE ⁽²⁾	April 2008	\$998.97	\$500 million	\$500 million	66

(1) The notes are redeemable at the option of the Company, in whole at any time, or in part from time to time, on not fewer than 30 and not more than 60 days' prior notice. The redemption price is equal to the greater of (i) the present value of the notes discounted at the Adjusted Treasury Rate (in respect of the U.S. Dollar denominated notes) or the Government of Canada yield (in respect of the Canadian dollar denominated notes) plus the redemption present value spread, or (ii) 100% of the principal amount thereof. In addition, accrued and unpaid interest, if any, will be paid to the date fixed for redemption.

(2) The Series CE Notes require the Company to make an offer to repurchase the Series CE Notes at a price equal to 101% of their principal plus accrued and unpaid interest to the date of repurchase upon the occurrence of a change in control triggering event, as defined in the supplemental trust indenture.

(c) TELUS Corporation commercial paper

On May 15, 2007, TELUS Corporation entered into an unsecured commercial paper program, which is backstopped by a portion of its \$2.0 billion syndicated credit facility, enabling it to issue commercial paper up to a maximum aggregate of \$800 million (or U.S. Dollar equivalent), to be used for general corporate purposes, including capital expenditures and investments; in August 2008, the program was expanded to \$1.2 billion. Commercial paper debt is due within one year but is classified as long-term debt as the amounts are fully supported, and the Company expects that they will continue to be supported, by the revolving credit facility which has no repayment requirements within the next year.

(d) TELUS Corporation credit facility

On March 2, 2007, TELUS Corporation entered into a \$2.0 billion bank credit facility with a syndicate of financial institutions. The credit facility consists of a \$2.0 billion (or U.S. Dollar equivalent) revolving credit facility expiring on May 1, 2012, to be used for general corporate purposes including the backstop of commercial paper.

TELUS Corporation's credit facility is unsecured and bears interest at prime rate, U.S. Dollar Base Rate, a bankers' acceptance rate or London interbank offered rate (LIBOR) (all such terms as used or defined in the credit facility), plus applicable margins. The credit facility contains customary representations, warranties and covenants including two financial quarter-end financial ratio tests. The financial ratio tests are that the Company may not permit its net debt to operating cash flow ratio to exceed 4.0:1 and may not permit its operating cash flow to interest expense ratio to be less than 2.0:1, each as defined under the credit facility.

Continued access to TELUS Corporation's credit facility is not contingent on the maintenance by TELUS Corporation of a specific credit rating.

As at December 31 (millions)	2008	2007
Revolving credit facility expiring May 1, 2012		
Net available	\$ 387	\$ 1,309
Drawn ⁽¹⁾	980	—
Outstanding, undrawn letters of credit	201	104
Backstop of commercial paper	432	587
Gross available	\$ 2,000	\$ 2,000

(1) Amounts drawn include bankers' acceptances of \$930 (2007 – \$NIL).

(e) TELUS Communications Inc. debentures

The outstanding Series 1 through 5 debentures were issued by a predecessor corporation of TELUS Communications Inc., BC TEL, under a Trust Indenture dated May 31, 1990, and are non-redeemable.

The outstanding Series B Debentures were issued by a predecessor corporation of TELUS Communications Inc., AGT Limited, under a Trust Indenture dated August 24, 1994, and a supplemental trust indenture dated September 22, 1995. They are redeemable at the option of the Company, in whole at any time or in part from time to time, on not less than 30 days' notice at the higher of par and the price calculated to provide the Government of Canada Yield plus 15 basis points.

Pursuant to an amalgamation on January 1, 2001, the Debentures became obligations of TELUS Communications Inc. The debentures are not secured by any mortgage, pledge or other charge and are governed by certain covenants including a negative pledge and a limitation on issues of additional debt, subject to a debt to capitalization ratio and interest coverage test.

(f) TELUS Communications Inc. first mortgage bonds

The first mortgage bonds were issued by TELUS Communications (Québec) Inc. and are secured by an immovable hypothec and by a movable hypothec charging specifically certain immovable and movable property of the subsidiary TELUS Communications Inc., such as land, buildings, equipment, apparatus, telephone lines, rights-of-way and similar rights limited to certain assets located in the province of Quebec. The first mortgage bonds are non-redeemable. Pursuant to a corporate reorganization effected July 1, 2004, the outstanding first mortgage bonds became obligations of TELUS Communications Inc.

(g) Long-term debt maturities

Anticipated requirements to meet long-term debt repayments, including related hedge amounts and calculated upon such long-term debts owing as at December 31, 2008, for each of the next five fiscal years are as follows:

Debt denominated in	Canadian dollars		U.S. dollars				
	Other debt	Capital leases	Debt ⁽¹⁾	Derivative liability		Total	Total
				(Receive) ⁽¹⁾	Pay		
Years ending December 31 (millions)							
2009	\$ 1	\$ 3	\$ —	\$ —	\$ —	\$ —	\$ 4
2010	80	2	—	—	—	—	82
2011	—	—	2,345	(2,345)	2,950	2,950	2,950
2012	1,712	—	—	—	—	—	1,712
2013	300	—	—	—	—	—	300
Thereafter	1,949	—	—	—	—	—	1,949
Future cash outflows in respect of debt principal repayments	4,042	5	2,345	(2,345)	2,950	2,950	6,997
Future cash outflows in respect of associated interest and like carrying costs ⁽²⁾	1,700	1	468	(468)	627	627	2,328
Undiscounted contractual maturities (Note 5(c))	\$ 5,742	\$ 6	\$ 2,813	\$ (2,813)	\$ 3,577	\$ 3,577	\$ 9,325

(1) Where applicable, principal-related cash flows reflect foreign exchange rates at December 31, 2008.

(2) Future cash outflows in respect of associated interest and like carrying costs for commercial paper and amounts drawn under the Company's credit facility have been calculated based upon the rates in effect as at December 31, 2008.



shareholders' equity

Summary schedules and review of shareholders' equity and changes therein including details of other comprehensive income, accumulated other comprehensive income, share option price stratification and normal course issuer bid summaries

(a) Details of shareholders' equity

As at December 31 (\$ in millions)

2008

2007

Preferred equity

Authorized

Amount

First Preferred Shares

1,000,000,000

Second Preferred Shares

1,000,000,000

Common equity

Share capital

Shares

Authorized

Amount

Common Shares

1,000,000,000

Non-Voting Shares

1,000,000,000

Issued

Common Shares (b)

\$ 2,216

\$ 2,228

Non-Voting Shares (b)

3,069

3,192

5,285

5,420

Retained earnings and accumulated other comprehensive income

Retained earnings

1,859

1,458

Accumulated other comprehensive income (loss) (c)

(130)

(104)

Total

1,729

1,354

Contributed surplus (d)

168

152

Total Shareholders' Equity

\$ 7,182

\$ 6,926

(b) Changes in Common Shares and Non-Voting Shares

Years ended December 31 (\$ in millions)	2008		2007	
	Number of shares	Share capital	Number of shares	Share capital
Common Shares				
Beginning of period	175,766,114	\$ 2,228	178,667,834	\$ 2,265
Common Shares issued pursuant to exercise of share options (e)	1,700	—	3,180	—
Purchase of shares for cancellation pursuant to normal course issuer bid (f)	(950,300)	(12)	(2,904,900)	(37)
End of period	174,817,514	\$ 2,216	175,766,114	\$ 2,228
Non-Voting Shares				
Beginning of period	148,581,171	\$ 3,192	159,240,734	\$ 3,421
Non-Voting Shares issued pursuant to exercise of share options (e)	13,339	—	29,790	1
Non-Voting Shares issued pursuant to use of share option award net-equity settlement feature (e)	47,748	2	16,647	—
Purchase of shares for cancellation pursuant to normal course issuer bid (f)	(5,810,400)	(125)	(10,706,000)	(230)
End of period	142,831,858	\$ 3,069	148,581,171	\$ 3,192

The amounts credited to the Common Share and Non-Voting Share capital accounts upon exercise of share options in the preceding table are all for cash received from exercise.

(c) Accumulated other comprehensive income (loss)

Years ended December 31 (millions)	2008						2007			
	Other comprehensive income (loss)			Accumulated other comprehensive income (loss)		Other comprehensive income (loss)			Accumulated other comprehensive income (loss)	
	Amount arising	Income taxes	Net	Beginning of period	End of period	Amount arising	Income taxes	Net	Beginning of period ⁽¹⁾	End of period
Change in unrealized fair value of derivatives designated as cash flow hedges (Note 5(ii))										
Gains (losses) arising in current period	\$ 405	\$ 58	\$ 347			\$ (354)	\$ (40)	\$ (314)		
(Gains) losses arising in prior periods and transferred to net income in the current period	(440)	(67)	(373)			477	81	396		
	(35)	(9)	(26)	\$ (96)	\$ (122)	123	41	82	\$ (178)	\$ (96)
Cumulative foreign currency translation adjustment	2	—	2	(9)	(7)	(7)	—	(7)	(2)	(9)
Change in unrealized fair value of available-for-sale financial assets and recognition of amounts realized	(2)	—	(2)	1	(1)	(1)	—	(1)	2	1
	\$ (35)	\$ (9)	\$ (26)	\$ (104)	\$ (130)	\$ 115	\$ 41	\$ 74	\$ (178)	\$ (104)

(1) Beginning of period amounts are the transitional amounts arising from adoption of new accounting standard and arise primarily from cross currency interest rate swaps (Note 18(b)) and are net of income taxes of \$82.

The net amount of the existing gains (losses) arising from the unrealized fair value of the 2011 cross currency interest rate swap agreements, which are derivatives that are designated as cash flow hedges and are reported in accumulated other comprehensive income, would be reclassified to net income if the agreements (see Note 18(b)) were early terminated; the amount of such reclassification would be dependent upon fair values and amounts of the agreements terminated. As at December 31, 2008, the Company's estimate of the net amount of existing gains (losses) arising from the unrealized fair value of derivatives designated as cash flow hedges, other than in respect of the 2011 cross currency interest rate swap agreements, which are reported in accumulated other comprehensive income and are expected to be reclassified to net income in the next twelve months, excluding tax effects, is \$4 million.

(d) Contributed surplus

Years ended December 31 (millions)	2008	2007
Balance, beginning of period	\$ 152	\$ 163
Share option award expense		
Recognized in period ⁽¹⁾	18	15
Reclassified to Non-Voting Share capital account upon use of share option award net-equity settlement feature	(2)	—
Reclassified from current liabilities as awards exercised and eligible for net-cash settlement were settled other than through the use of net-cash settlement feature	—	(26)
Balance, end of period	\$ 168	\$ 152

(1) This amount represents the expense for share option awards accounted for as equity instruments; the difference between this amount and the amount disclosed in Note 12(a), if any, is the expense for share option awards accounted for as liability instruments.

(e) Share option plans

The Company has a number of share option plans under which officers and other employees may receive options to purchase Non-Voting Shares at a price equal to the fair market value at the time of grant; prior to 2001, options were also similarly awarded in respect of Common Shares. Prior to 2002, directors were also awarded

options to purchase Non-Voting Shares and Common Shares at a price equal to the fair market value at the time of grant. Option awards currently granted under the plans may be exercised over specific periods not to exceed seven years from the time of grant; prior to 2003, share option awards were granted with exercise periods not to exceed ten years.

The following table presents a summary of the activity related to the Company's share option plans.

Years ended December 31	2008		2007	
	Number of share options	Weighted average share option price	Number of share options	Weighted average share option price
Outstanding, beginning of period	8,284,634	\$ 37.17	10,569,462	\$ 31.46
Granted	2,949,957	43.81	1,347,893	56.59
Exercised ⁽¹⁾	(582,286)	27.54	(3,041,122)	26.60
Forfeited	(466,489)	45.61	(591,599)	33.74
Expired	(32,500)	46.72	—	—
Outstanding, end of period	10,153,316	\$ 39.23	8,284,634	\$ 37.17

(1) The total intrinsic value of share option awards exercised was \$9 million (2007 – \$94 million) (reflecting a weighted average price at the dates of exercise of \$42.54 per share (2007 – \$57.44 per share)). The tax benefit realized for the tax deductions from share option exercises was \$2 million (2007 – \$36 million).

In 2006, certain outstanding grants of share option awards, which were made after 2001, had a net-equity settlement feature applied to them. This event did not result in the optionees receiving incremental value and therefore modification accounting was not required for it. The optionee does not have the choice of exercising the net-equity settlement feature. It is at the Company's discretion whether an exercise

of the share option award is settled as a share option or using the net-equity settlement feature. In 2007, certain outstanding grants of share option awards had a net-cash settlement feature applied to them, as further discussed in Note 12(b); the optionee has the choice of exercising the net-cash settlement feature.

The following table reconciles the number of share options exercised and the associated number of Common Shares and Non-Voting Shares issued.

Years ended December 31	2008			2007		
	Common Shares	Non-Voting Shares	Total	Common Shares	Non-Voting Shares	Total
Shares issued pursuant to exercise of share options	1,700	13,339	15,039	3,180	29,790	32,970
Impact of optionee choosing to settle share option award exercises using net-cash settlement feature	34,667	341,421	376,088	339,002	2,643,953	2,982,955
Shares issued pursuant to use of share option award net-equity settlement feature	N/A ⁽¹⁾	47,748	47,748	N/A ⁽¹⁾	16,647	16,647
Impact of Company choosing to settle share option award exercises using net-equity settlement feature	N/A ⁽¹⁾	143,411	143,411	N/A ⁽¹⁾	8,550	8,550
Share options exercised	36,367	545,919	582,286	342,182	2,698,940	3,041,122

(1) Share option awards for Common Shares do not have a net-equity settlement feature.

The following is a life and exercise price stratification of the Company's share options outstanding as at December 31, 2008.

Options outstanding ⁽¹⁾							Options exercisable	
Range of option prices	Total						Number of shares	Weighted average price
Low	\$ 8.43	\$ 14.63	\$ 21.99	\$ 33.14	\$ 50.47	\$ 8.43		
High	\$ 10.75	\$ 19.92	\$ 32.83	\$ 47.22	\$ 64.64	\$ 64.64		
Year of expiry and number of shares								
2009	2,944	285,802	93,642	62,315	—	444,703	444,703	\$ 21.85
2010	—	58,071	536,377	254,217	—	848,665	848,665	\$ 27.93
2011	—	3,500	1,035,413	790,984	—	1,829,897	1,829,897	\$ 28.98
2012	7,083	126,300	65,000	1,438,019	—	1,636,402	1,045,827	\$ 33.07
2013	—	—	—	1,335,571	53,032	1,388,603	—	\$ —
2014	—	—	—	12,495	1,201,632	1,214,127	—	\$ —
2015	—	—	—	2,790,919	—	2,790,919	—	\$ —
	10,027	473,673	1,730,432	6,684,520	1,254,664	10,153,316	4,169,092	
Weighted average remaining contractual life (years)	2.7	1.8	2.3	4.5	5.2	4.1		
Weighted average price	\$ 10.14	\$ 16.05	\$ 24.71	\$ 41.41	\$ 56.66	\$ 39.23		
Aggregate intrinsic value ⁽²⁾ (millions)	\$ —	\$ 9	\$ 18	\$ —	\$ —	\$ 27		
Options exercisable								
Number of shares	10,027	473,673	1,730,432	1,954,960	—	4,169,092		
Weighted average remaining contractual life (years)	2.7	1.8	2.3	2.5	—	2.3		
Weighted average price	\$ 10.14	\$ 16.05	\$ 24.71	\$ 36.09	\$ —	\$ 29.03		
Aggregate intrinsic value ⁽²⁾ (millions)	\$ —	\$ 9	\$ 18	\$ —	\$ —	\$ 27		

(1) As at December 31, 2008, 9,603,650 share options, with a weighted average remaining contractual life of 4.0 years, a weighted average price of \$38.95 and an aggregate intrinsic value of \$27 million, are vested or were expected to vest; these amounts differ from the corresponding amounts for all share options outstanding due to an estimate for expected forfeitures.

(2) The aggregate intrinsic value is calculated upon December 31, 2008, per share prices of \$37.17 for Common Shares and \$34.90 for Non-Voting Shares.

As at December 31, 2008, less than one million Common Shares and approximately 15 million Non-Voting Shares were reserved for issuance, from Treasury, under the share option plans.

(f) Purchase of shares for cancellation pursuant to normal course issuer bid

As referred to in Note 3, the Company may purchase shares for cancellation pursuant to normal course issuer bids in order to maintain or adjust its capital structure. The Company has purchased, for cancellation, through the facilities of the Toronto Stock Exchange or other means permitted by the Toronto Stock Exchange and other securities regulators, including privately negotiated block purchases, Common Shares and Non-Voting Shares pursuant to successive

normal course issuer bids; the Company's most current normal course issuer bid runs for a twelve-month period ending December 22, 2009, for up to 4 million Common Shares and 4 million Non-Voting Shares. The excess of the purchase price over the average stated value of shares purchased for cancellation was charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter.

Years ended December 31 (\$ in millions)	Number of shares	Purchase price		
		Paid	Charged to share capital	Charged to retained earnings
Common Shares purchased for cancellation				
Program commencing December 20, 2004	10,259,011	\$ 440	\$ 129	\$ 311
Program commencing December 20, 2005	6,125,069	290	77	213
Program commencing December 20, 2006				
During fiscal 2006 year	—	—	—	—
During fiscal 2007 year	2,904,900	167	37	130
Program total	2,904,900	167	37	130
Program commencing December 20, 2007				
During fiscal 2007 year	—	—	—	—
During fiscal 2008 year	950,300	39	12	27
Program total	950,300	39	12	27
All programs – inception to date	20,239,280	\$ 936	\$ 255	\$ 681
All programs – during fiscal 2008 year	950,300	\$ 39	\$ 12	\$ 27
All programs – during fiscal 2007 year	2,904,900	\$ 167	\$ 37	\$ 130

Years ended December 31 (\$ in millions)	Number of shares	Purchase price		
		Paid	Charged to share capital	Charged to retained earnings
Non-Voting Shares purchased for cancellation				
Program commencing December 20, 2004	11,500,000	\$ 473	\$ 241	\$ 232
Program commencing December 20, 2005	11,309,100	557	241	316
Program commencing December 20, 2006				
During fiscal 2006 year	186,723	10	4	6
During fiscal 2007 year	10,571,800	577	227	350
Program total	10,758,523	587	231	356
Program commencing December 20, 2007				
During fiscal 2007 year	134,200	6	3	3
During fiscal 2008 year	5,810,400	241	125	116
Program total	5,944,600	247	128	119
All programs – inception to date	39,512,223	\$ 1,864	\$ 841	\$ 1,023
All programs – during fiscal 2008 year	5,810,400	\$ 241	\$ 125	\$ 116
All programs – during fiscal 2007 year	10,706,000	\$ 583	\$ 230	\$ 353
Common Shares and Non-Voting Shares purchased for cancellation				
Program commencing December 20, 2004	21,759,011	\$ 913	\$ 370	\$ 543
Program commencing December 20, 2005	17,434,169	847	318	529
Program commencing December 20, 2006				
During fiscal 2006 year	186,723	10	4	6
During fiscal 2007 year	13,476,700	744	264	480
Program total	13,663,423	754	268	486
Program commencing December 20, 2007				
During fiscal 2007 year	134,200	6	3	3
During fiscal 2008 year	6,760,700	280	137	143
Program total	6,894,900	286	140	146
All programs – inception to date	59,751,503	\$ 2,800	\$ 1,096	\$ 1,704
All programs – during fiscal 2008 year	6,760,700	\$ 280	\$ 137	\$ 143
All programs – during fiscal 2007 year	13,610,900	\$ 750	\$ 267	\$ 483

(ii) Dividend Reinvestment and Share Purchase Plan

The Company has a Dividend Reinvestment and Share Purchase Plan under which eligible shareholders may acquire Non-Voting Shares through the reinvestment of dividends and making additional optional cash payments to the trustee.

Excluding Non-Voting Shares purchased by way of additional optional cash payments, the Company, at its discretion, may offer the Non-Voting Shares at up to a 5% discount from the market price. Effective January 1, 2005, the Company did not offer Non-Voting Shares at a discount. Shares purchased through optional cash payments are subject to a minimum investment of

\$100 per transaction and a maximum investment of \$20,000 per calendar year.

Under this Plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. Prior to July 1, 2001, when the acquisition of shares from Treasury commenced, all Non-Voting Shares were acquired in the market at normal trading prices; acquisition in the market at normal trading prices recommenced on January 1, 2005.

In respect of Common Share and Non-Voting Share dividends declared during the year ended December 31, 2008, \$21 million (2007 – \$17 million) was to be reinvested in Non-Voting Shares.



commitments and contingent liabilities

Summary review of contingent liabilities, lease obligations, guarantees, claims and lawsuits

(a) Canadian Radio-television and Telecommunications Commission Decisions 2002-34, 2002-43 and 2006-9 deferral accounts

As further discussed in Note 4, on May 30, 2002, and on July 31, 2002, the CRTC issued Decisions 2002-34 and 2002-43, respectively, and introduced the concept of a deferral account as a component of the price caps form of regulation. The Company must make significant

estimates and assumptions in respect of the deferral accounts given the complexity and interpretation required of Decisions 2002-34 and 2002-43. Accordingly, the Company estimates, and records, an aggregate liability of \$146 million as at December 31, 2008 (2007 – \$147 million), to the extent that activities it has undertaken, other qualifying events and realized rate reductions for Competitor Services do not extinguish it; management is required to make estimates

and assumptions in respect of the offsetting nature of these items. If the CRTC, upon its periodic review of the Company's deferral account, disagrees with management's estimates and assumptions, the CRTC may adjust the deferral account balance and such adjustment may be material. Ultimately, this process results in the CRTC determining if, and when, the deferral account liability is settled.

On March 24, 2004, the CRTC issued Telecom Public Notice CRTC 2004-1, *Review and disposition of the deferral accounts for the*

second price cap period, which initiated a public proceeding inviting proposals on the disposition of the amounts accumulated in the incumbent local exchange carriers' deferral accounts. Although amounts were accumulated in the deferral account only during the four-year period ended May 31, 2006, the proceeding was to address only the amounts accumulated in the deferral account during the two-year period ended May 31, 2004. The outcomes of this proceeding are as set out in the following table.

Decision	Issued	Initiative		
		Expansion of broadband services in respective incumbent local exchange carrier operating territories to rural and remote communities	Enhance accessibility to telecommunications services for individuals with disabilities	Rebate balance of deferral account to local residential customers in non-high cost serving areas
Decision CRTC 2006-9, <i>Disposition of funds in the deferral account</i>	February 16, 2006	Majority of accumulated balance of deferral account to be used for this initiative	Minimum of 5% of accumulated balance of deferral account to be used for this initiative	Remaining amount of accumulated balance of deferral account to be used for this initiative
Decision CRTC 2007-50, <i>Use of deferral account to expand broadband services to certain rural and remote communities</i>	July 6, 2007	Expansion of broadband services to 115 communities in British Columbia and Quebec approved		
Decision CRTC 2008-1, <i>Use of deferral account funds to improve access to telecommunications services for persons with disabilities and to expand broadband services to rural and remote communities</i>	January 17, 2008	Expansion of broadband services to an additional 119 rural and remote communities approved; determination that no further communities can be submitted to exhaust remaining funds in the deferral account	Approved the use of approximately 5% of the accumulated balance of the Company's deferral account	Confirmed that remaining amount of accumulated balance of deferral account to be used for this initiative

There have been a series of escalating court actions since the issuance of CRTC Telecom Decision 2006-9 and Telecom Decision 2008-1 and the litigants have included the Consumers Association of Canada, the National Anti-Poverty Organization, Bell Canada and the Company. The consumer groups have appealed to the courts to direct that rebates be made to local telephone subscribers rather than have the accumulated deferral account funds used for purposes determined by the CRTC, as noted above. Bell Canada has appealed to the courts that the CRTC has exceeded its jurisdiction to the extent it approved rebates from the deferral account. The Company has appealed to the courts to permit incumbent local exchange carriers to file for approval further lists of communities that would be eligible for broadband expansion from the remaining funds in the deferral account rather than rebating the remaining funds to local telephone subscribers. The Supreme Court of Canada has granted a stay of CRTC Telecom Decision 2006-9 in so far as it requires a rebate to local telephone subscribers. The appeals pertaining to the disposition of the accumulated amounts in the deferral account by the consumer groups,

Bell Canada and the Company are currently scheduled to be heard by the Supreme Court of Canada in March 2009. The Company anticipates a decision on this matter in the latter half of 2009.

Due to the Company's use of the liability method of accounting for the deferral account, the CRTC Decision 2005-6, as it relates to the Company's provision of Competitor Digital Network services, is not expected to affect the Company's consolidated revenues. Specifically, to the extent that the CRTC Decision 2005-6 requires the Company to provide discounts on Competitor Digital Network services, through May 31, 2006, the Company drew down the deferral account by an offsetting amount; subsequent to May 31, 2006, the statement of income and other comprehensive income effects did not change and the Company no longer needed to account for these amounts through the deferral account. For the year ended December 31, 2008, the Company drew down the deferral account by \$1 million (2007 – \$18 million) in respect of discounts on Competitor Digital Network services and other qualifying expenditures.

(b) Leases

The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases. At December 31, 2008, the future minimum lease payments under capital leases and operating leases are as follows:

Years ending December 31 (millions)	Capital lease payments	Operating lease payments				Total
		Land and buildings			Vehicles and other equipment	
		Rent	Occupancy costs	Gross		
2009	\$ 3	\$ 156	\$ 82	\$ 238	\$ 23	\$ 261
2010	2	155	83	238	19	257
2011	—	142	82	224	15	239
2012	—	133	79	212	8	220
2013	—	124	79	203	1	204
Total future minimum lease payments	5					
Less imputed interest	1					
Capital lease liability	\$ 6					

Total future minimum operating lease payments at December 31, 2008, were \$2,261 million. Of this amount, \$2,195 million was in respect of land and buildings; approximately 60% of this amount was in respect of the Company's five largest leases, all of which were for office premises over various terms, with expiry dates which range from 2016 to 2026.

(c) Guarantees

Guarantees: Canadian generally accepted accounting principles require the disclosure of certain types of guarantees and their maximum, undiscounted amounts. The maximum potential payments represent a worst-case scenario and do not necessarily reflect results expected by the Company. Guarantees requiring disclosure are those obligations that require payments contingent on specified types of future events. In the normal course of its operations, the Company enters into obligations that GAAP may consider to be guarantees. As defined by Canadian GAAP, guarantees subject to these disclosure guidelines do not include guarantees that relate to the future performance of the Company. As at December 31, 2008, the Company's maximum undiscounted guarantee amounts, without regard for the likelihood of having to make such payment, were not material.

Indemnification obligations: In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. The terms of these indemnification obligations range in duration and often are not explicitly defined. Where appropriate, an indemnification obligation is recorded as a liability. In many cases, there is no maximum limit on these indemnification obligations and the overall maximum amount of the obligations under such indemnification obligations cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS' directory business, the Company agreed to bear a proportionate share of the new owner's increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company's proportionate share would have been 80% through May 2006, declining to 40% in the next five-year period and then to 15% in the final five years. As well, should the CRTC take any action which would result in the owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred.

As at December 31, 2008, the Company had no liability recorded in respect of indemnification obligations.

(d) Claims and lawsuits

General: A number of claims and lawsuits (including class actions) seeking damages and other relief are pending against the Company. As well, the Company has received or is aware of certain intellectual property infringement claims and potential claims against the Company and, in some cases, numerous other wireless carriers and telecommunications service providers. In some instances, the matters are at a preliminary stage and the potential for liability and magnitude of potential loss cannot be readily determined currently. It is impossible at this time for the Company to predict with any certainty the outcome of any such claims, potential claims and lawsuits.

However, subject to the foregoing limitations, management is of the opinion, based upon legal assessment and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, excepting the items enumerated following.

TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan: Two statements of claim were filed in the Alberta Court of Queen's Bench on December 31, 2001, and January 2, 2002, respectively, by plaintiffs alleging to be either members or business agents of the Telecommunications Workers Union. In one action, the plaintiffs alleged to be suing on behalf of all current or future beneficiaries of the TELUS Corporation Pension Plan and in the other action, the plaintiffs alleged to be suing on behalf of all current or future beneficiaries of the TELUS Edmonton Pension Plan. The statement of claim in the TELUS Corporation Pension Plan related action named the Company, certain of its affiliates and certain present and former trustees of the TELUS Corporation Pension Plan as defendants, and claims damages in the sum of \$445 million. The statement of claim in the TELUS Edmonton Pension Plan related action named the Company, certain of its affiliates and certain individuals who are alleged to be trustees of the TELUS Edmonton Pension Plan and claims damages in the sum of \$16 million. On February 19, 2002, the Company filed statements of defence to both actions and also filed notices of motion for certain relief, including an order striking out the actions as representative or class actions. On May 17, 2002, the statements of claim were amended by the plaintiffs and include allegations, *inter alia*, that benefits provided under the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan are less advantageous than the benefits provided under the respective former pension plans, contrary to applicable legislation, that insufficient contributions were made to the plans and contribution holidays were taken and that the defendants wrongfully used the diverted funds, and that administration fees and expenses were improperly deducted. The Company filed statements of defence to the amended statements of claim on June 3, 2002. The Company believes that it has good defences to the actions. As a term of the settlement reached between TELUS Communications Inc. and the Telecommunications Workers Union that resulted in a collective agreement effective November 20, 2005, the Telecommunications Workers Union has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs the Telecommunications Workers Union's desire and recommendation that these proceedings be dismissed or discontinued. The Company has been advised by the Telecommunications Workers Union that the plaintiffs have not agreed to dismiss or discontinue these actions. Should the lawsuits continue because of the actions of the court, the plaintiffs or for any other reason, and their ultimate resolution differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Certified class action: A class action was brought August 9, 2004, under the *Class Actions Act* (Saskatchewan), against a number of past and present wireless service providers including the Company. The claim alleges that each of the carriers is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. The class was certified on September 17, 2007, by the Saskatchewan Court of Queen's Bench.

On February 20, 2008, the same court removed from the class all customers of the Company who are bound by an arbitration clause, applying two recent decisions of the Supreme Court of Canada. The Company has applied for leave to appeal the certification decision. The Company believes that it has good defences to the action.

Similar proceedings have also been filed by, or on behalf of, plaintiffs' counsel in other provincial jurisdictions.

Should the ultimate resolution of this action differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result; management's assessments and assumptions include that a reliable estimate of the exposure cannot be made at this preliminary stage of the lawsuit.

Uncertified class action: A class action was brought on June 26, 2008, in the Saskatchewan Court of Queen's Bench alleging that, among other things, Canadian telecommunications carriers including the Company have failed to provide proper notice of 9-1-1 charges

to the public and have been deceitfully passing it off as government charges. The Plaintiffs seek restitution and direct and punitive damages in an unspecified amount. The Company is assessing the merits of this claim but the potential for liability and magnitude of potential loss cannot be readily determined at this time.

Emergis Inc.: As set out in Note 16, on January 17, 2008, the Company acquired all of the outstanding securities of Emergis Inc.

In April 2005, MultiPlan, Inc. filed in federal court in New York a complaint seeking, among other relief, compensation in excess of U.S.\$64 million for damages allegedly incurred in connection with its purchase of the U.S. health subsidiary of Emergis Inc. The complaint alleged a variety of claims relating to the sales agreement. This lawsuit was settled during the third quarter of 2008 in consideration for the payment by the Company of an amount of U.S.\$4 million, such amount, net of insurance coverage, approximating the related accrual.

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additional financial information

Summary schedules of items comprising certain primary financial statement line items

(a) Statement of income and other comprehensive income

Years ended December 31 (millions)	2008	2007
Operations expense⁽¹⁾		
Cost of sales and service	\$ 3,235	\$ 2,949
Selling, general and administrative	2,580	2,516
	\$ 5,815	\$ 5,465
Advertising expense	\$ 312	\$ 294
Employee benefits expense		
Wages and salaries ⁽²⁾	\$ 2,226	\$ 2,242
Pensions – defined benefit (Note 13(b))	(100)	(96)
Pensions – defined contribution (Note 13(j))	63	57
Other defined benefits (Note 13(b))	(2)	4
Restructuring and workforce reduction (Note 7)	59	19
Other	140	123
	2,386	2,349
Capitalized internal labour costs (Note 15(a))	(371)	(335)
	\$ 2,015	\$ 2,014

(1) Cost of sales and service excludes depreciation and amortization of intangible assets and includes cost of goods sold and costs to operate and maintain access to and usage of the Company's telecommunications infrastructure. Selling, general and administrative costs include sales and marketing costs (including commissions), customer care, bad debt expense, real estate costs and corporate overhead costs such as information technology, finance (including billing services, credit and collection), legal, human resources and external affairs.

Employee salaries, benefits and related costs are included in one of the two components of operations expense to the extent that the costs are related to the component functions.

(2) Wages and salaries include share-based compensation amounts of \$88 (2007 – \$247), as disclosed in Note 12.

(b) Statement of financial position

As at December 31 (millions)	2008	2007
Accounts receivable		
Customer accounts receivable	\$ 843	\$ 591
Accrued receivables – customer	110	113
Allowance for doubtful accounts	(77)	(63)
	876	641
Accrued receivables – other	87	67
Other	3	3
	\$ 966	\$ 711
Inventories		
Wireless handsets, parts and accessories	\$ 268	\$ 179
Other	65	64
	\$ 333	\$ 243
Prepaid expense and other		
Prepaid expenses	\$ 109	\$ 118
Deferred customer activation and connection costs	44	39
Other	67	43
	\$ 220	\$ 200
Deferred charges		
Recognized transitional pension assets and pension plan contributions in excess of charges to income	\$ 1,401	\$ 1,194
Deferred customer activation and connection costs	95	109
Other	17	15
	\$ 1,513	\$ 1,318

As at December 31 (millions)	2008	2007
Accounts payable and accrued liabilities		
Accrued liabilities	\$ 527	\$ 447
Payroll and other employee-related liabilities	347	422
Accrual for net-cash settlement feature for share option awards (Note 12(b))	27	82
Asset retirement obligations	3	4
	904	955
Trade accounts payable	441	406
Interest payable	58	51
Other	62	64
	\$ 1,465	\$ 1,476
Advance billings and customer deposits		
Advance billings	\$ 475	\$ 409
Regulatory deferral accounts (Note 20(a))	146	147
Deferred customer activation and connection fees	44	39
Customer deposits	24	37
	\$ 689	\$ 632
Other long-term liabilities		
Derivative liabilities (Notes 5(h), 18(b))	\$ 785	\$ 1,183
Pension and other post-retirement liabilities	210	208
Other	108	116
	1,103	1,507
Deferred customer activation and connection fees	95	109
Deferred gain on sale-leaseback of buildings	54	62
Asset retirement obligations	43	40
	\$ 1,295	\$ 1,718

(c) Supplementary cash flow information

Years ended December 31 (millions)	2008	2007
Net change in non-cash working capital		
Short-term investments	\$ 42	\$ 68
Accounts receivable	(217)	(32)
Inventories	(90)	(19)
Prepaid expenses and other	(15)	(4)
Accounts payable and accrued liabilities	(31)	6
Income and other taxes receivable and payable, net	253	(19)
Advance billings and customer deposits	57	25
	\$ (1)	\$ 25
Long-term debt issued		
TELUS Corporation Commercial Paper	\$ 7,831	\$ 5,962
TELUS Corporation Credit Facility	4,652	801
Long-term debt other than TELUS Corporation Commercial Paper and TELUS Corporation Credit Facility	500	1,000
	\$ 12,983	\$ 7,763
Redemptions and repayment of long-term debt		
TELUS Corporation Commercial Paper	\$ (7,985)	\$ (5,377)
TELUS Corporation Credit Facility	(3,674)	(921)
Long-term debt other than TELUS Corporation Commercial Paper and TELUS Corporation Credit Facility	(8)	(1,559)
	\$ (11,667)	\$ (7,857)
Interest (paid)		
Amount paid in respect of interest expense	\$ (457)	\$ (444)
Forward starting interest rate swap agreement termination payments	-	(10)
	\$ (457)	\$ (454)

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differences between Canadian and United States generally accepted accounting principles

Summary schedules and review of differences between Canadian and United States generally accepted accounting principles as they apply to the Company

The consolidated financial statements have been prepared in accordance with Canadian GAAP. As discussed further in Note 2(a), Canadian GAAP is being converged with IFRS-IASB. The United States Securities and Exchange Commission, effective March 4, 2008, will no longer require certain reporting issuers, such as the Company, to reconcile their financial statements included in their filings with the United States Securities and Exchange Commission and prepared in accordance with IFRS-IASB to U.S. GAAP. Upon the commencement of presenting the Company's financial statements in accordance with IFRS-IASB, the Company currently expects that it will cease reconciling its financial statements to U.S. GAAP.

The principles currently adopted in these financial statements conform in all material respects to those generally accepted in the United States except as summarized below. Significant differences between Canadian GAAP and U.S. GAAP would have the following effect on reported net income of the Company:

Years ended December 31 (millions except per share amounts)	2008	2007
Net income in accordance with Canadian GAAP	\$ 1,128	\$ 1,258
Adjustments:		
Operating expenses		
Operations (b)	(62)	(23)
Amortization of intangible assets (c)	(50)	(50)
Taxes on the above adjustments and tax rate changes (e)	42	69
Net income in accordance with U.S. GAAP	1,058	1,254
Other comprehensive income (loss), net of taxes (f)		
In accordance with Canadian GAAP	(26)	74
Change in pension related other comprehensive income accounts	(225)	109
In accordance with U.S. GAAP	(251)	183
Comprehensive income in accordance with U.S. GAAP	\$ 807	\$ 1,437
Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share		
- Basic	\$ 3.30	\$ 3.78
- Diluted	\$ 3.29	\$ 3.75

The following is an analysis of retained earnings (deficit) reflecting the application of U.S. GAAP:

Years ended December 31 (millions)	2008	2007
Schedule of retained earnings (deficit) under U.S. GAAP		
Balance at beginning of period	\$ (61)	\$ (420)
Net income in accordance with U.S. GAAP	1,058	1,254
	997	834
Common Share and Non-Voting Share dividends paid, or payable, in cash	(584)	(521)
Purchase of Common Shares and Non-Voting Shares in excess of stated capital	(89)	(374)
Balance at end of period	\$ 324	\$ (61)

The following is an analysis of major statement of financial position categories reflecting the application of U.S. GAAP:

As at December 31 (millions)	2008	2007
Current Assets	\$ 1,558	\$ 1,341
Capital Assets		
Property, plant, equipment and other	7,317	7,196
Intangible assets subject to amortization	2,824	2,516
Intangible assets with indefinite lives	3,849	2,967
Other Assets	734	932
Goodwill	3,966	3,570
	\$ 20,248	\$ 18,522
Current Liabilities	\$ 3,057	\$ 2,686
Long-Term Debt	6,376	4,614
Other Long-Term Liabilities	1,256	1,718
Deferred Income Taxes	1,444	1,349
Non-Controlling Interest	23	26
Shareholders' Equity	8,092	8,129
	\$ 20,248	\$ 18,522

The following is a reconciliation of shareholders' equity incorporating the differences between Canadian and U.S. GAAP:

As at December 31, 2008 (millions)	Shareholders' Equity					Total
	Common Shares	Non-Voting Shares	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Contributed surplus	
Under Canadian GAAP	\$ 2,216	\$ 3,069	\$ 1,859	\$ (130)	\$ 168	\$ 7,182
Adjustments:						
Merger of BC TELECOM and TELUS (a), (c), (d)	1,732	883	(1,438)	(390)	—	787
Share-based compensation (b)	10	53	(93)	—	30	—
Acquisition of Clearnet Communications Inc.						
Goodwill (d)	—	131	(8)	—	—	123
Convertible debentures	—	(3)	4	—	(1)	—
Under U.S. GAAP	\$ 3,958	\$ 4,133	\$ 324	\$ (520)	\$ 197	\$ 8,092

As at December 31, 2007 (millions)	Shareholders' Equity					Total
	Common Shares	Non-Voting Shares	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Contributed surplus	
Under Canadian GAAP	\$ 2,228	\$ 3,192	\$ 1,458	\$ (104)	\$ 152	\$ 6,926
Adjustments:						
Merger of BC TELECOM and TELUS (a), (c), (d)	1,741	922	(1,418)	(165)	—	1,080
Share-based compensation (b)	10	55	(97)	—	32	—
Acquisition of Clearnet Communications Inc.						
Goodwill (d)	—	131	(8)	—	—	123
Convertible debentures	—	(3)	4	—	(1)	—
Under U.S. GAAP	\$ 3,979	\$ 4,297	\$ (61)	\$ (269)	\$ 183	\$ 8,129

(a) Merger of BC TELECOM and TELUS

The business combination between BC TELECOM and TELUS Corporation (renamed TELUS Holdings Inc., which was wound up June 1, 2001) was accounted for using the pooling of interests method under Canadian GAAP. Under Canadian GAAP, the application of the pooling of interests method of accounting for the merger of BC TELECOM and TELUS Holdings Inc. resulted in a restatement of prior periods as if the two companies had always been combined. Under U.S. GAAP, the merger is accounted for using the purchase method. Use of the purchase method resulted in TELUS (TELUS Holdings Inc.) being acquired by BC TELECOM for \$4,662 million (including merger related costs of \$52 million) effective January 31, 1999.

(b) Operating expenses – Operations

Future employee benefits: Under U.S. GAAP, TELUS' future employee benefit assets and obligations have been recorded at their fair values on acquisition. Accounting for future employee benefits under Canadian GAAP changed to become more consistent with U.S. GAAP effective January 1, 2000. Canadian GAAP provides that the transitional balances can be accounted for prospectively. Therefore, to conform to U.S. GAAP, the amortization of the transitional amount needs to be removed from the future employee benefit expense.

Unlike Canadian GAAP, U.S. GAAP requires the full recognition of obligations associated with employee future benefit plans as prescribed by Financial Accounting Standards Board Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans*.

Applying this standard, the funded status of the Company's plans is shown gross on the consolidated statements of financial position and the difference between the net funded plan states and the net accrued benefit asset or liability is included as a component of accumulated other comprehensive income.

Share-based compensation: Both Canadian GAAP and U.S. GAAP require the use of the fair value method of accounting for share-based compensation for awards made after 2001 and 1994, respectively.

On a prospective basis, commencing January 1, 2006, there is no longer a difference between Canadian GAAP and U.S. GAAP share-based compensation expense recognized in the results of operations arising from current share-based compensation awards accounted for as equity instruments. As share option awards granted subsequent to 1994 and prior to 2002 are captured by U.S. GAAP, but are not captured by Canadian GAAP, differences in shareholders' equity accounts arising from these awards will continue.

Substantially all of the Company's outstanding share option awards that were granted prior to January 1, 2005, have a net-cash

settlement feature; the optionee has the choice of exercising the net-cash settlement feature. The affected outstanding share option awards largely take on the characteristics of liability instruments rather than equity instruments; the minimum expense recognized for the affected share option awards will be their grant date fair values. Under U.S. GAAP, the grant date fair values of affected outstanding share option awards granted subsequent to 1994 affect the transitional amount whereas Canadian GAAP only considers grant date fair values for affected outstanding share option awards granted subsequent to 2001; for the year ended December 31, 2008, this resulted in the U.S. GAAP expense being greater than the Canadian GAAP expense by \$NIL (2007 – \$25 million).

(c) Operating expenses – Amortization of intangible assets

As TELUS' intangible assets on acquisition have been recorded at their fair value (see (a)), amortization of such assets, other than for those with indefinite lives, needs to be included under U.S. GAAP; consistent with prior years, amortization is calculated using the straight-line method.

The incremental amounts recorded as intangible assets arising from the TELUS acquisition above are as follows:

As at December 31 (millions)	Cost	Accumulated amortization	Net book value	
			2008	2007
Intangible assets subject to amortization				
Subscribers – wireline	\$ 1,950	\$ 443	\$ 1,507	\$ 1,557
Intangible assets with indefinite lives				
Spectrum licences ⁽¹⁾	1,833	1,833	–	–
	\$ 3,783	\$ 2,276	\$ 1,507	\$ 1,557

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002 and the transitional impairment amount.

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at December 31, 2008, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2009	\$ 394
2010	302
2011	202
2012	131
2013	116

(d) Goodwill

Merger of BC TELECOM and TELUS: Under the purchase method of accounting, TELUS' assets and liabilities at acquisition (see (a)) have been recorded at their fair values with the excess purchase price being allocated to goodwill in the amount of \$403 million. Commencing January 1, 2002, rather than being systematically amortized, the carrying value of goodwill is periodically tested for impairment.

Additional goodwill on Clearnet purchase: Under U.S. GAAP, shares issued by the acquirer to effect an acquisition are measured at the date the acquisition was announced; however, under Canadian GAAP, at the time the transaction took place, shares issued to effect an acquisition were measured at the transaction date. This results in the purchase price under U.S. GAAP being \$131 million higher than under Canadian GAAP. The resulting difference is assigned to goodwill. Commencing January 1, 2002, rather than being systematically amortized, the carrying value of goodwill is periodically tested for impairment.

(e) Income taxes

Years ended December 31 (millions)	2008	2007
Current	\$ 275	\$ (144)
Deferred	131	309
	406	165
Investment Tax Credits	(12)	(11)
	\$ 394	\$ 154

The Company's income tax expense, for U.S. GAAP purposes, differs from that calculated by applying statutory rates for the following reasons:

Years ended December 31 (\$ in millions)	2008	2007
Basic blended federal and provincial tax at statutory income tax rates	\$ 451 31.0%	\$ 475 33.6%
Revaluation of deferred income tax liability to reflect future statutory income tax rates	(40)	(213)
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	(21)	(79)
Share option award compensation	6	(12)
Investment Tax Credits, net of tax	(8)	(7)
Other	6	(10)
U.S. GAAP income tax expense	\$ 394 27.1%	\$ 154 10.9%

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its deferred income tax asset and deferred income tax liability. The operations of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. Temporary differences comprising the deferred income tax liability are estimated as follows:

As at December 31 (millions)	2008	2007
Capital assets		
Property, plant, equipment, other and intangible assets subject to amortization	\$ (559)	\$ (474)
Intangible assets with indefinite lives	(830)	(746)
Partnership income unallocated for income tax purposes	(556)	(631)
Net pension and share-based compensation amounts	(92)	(97)
Reserves not currently deductible	70	71
Losses available to be carried forward	44	18
Other	20	6
	\$ (1,903)	\$ (1,853)
Deferred income tax liability		
Current	\$ (459)	\$ (504)
Non-current	(1,444)	(1,349)
Deferred income tax asset, (liability)	\$ (1,903)	\$ (1,853)

Effective January 1, 2007, the Company adopted the method of accounting for uncertain income tax positions prescribed by Financial Accounting Standards Board Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation is intended to standardize accounting practice for the recognition, derecognition and measurement of tax benefits to enable consistency and comparability among reporting entities for the reporting of income tax assets and liabilities. No consequential adjustments were required in the Company's financial statements as a result of that adoption.

The total amount of unrecognized tax benefits, excluding net capital losses, that, if recognized, would affect the effective tax rate at December 31, 2008, is \$221 million (2007 – \$196 million). Unrecognized tax benefits related to net capital losses, if recognized, amount to \$156 million (2007 – \$162 million), of which \$12 million (2007 – \$NIL) would have affected the effective tax rate for the year ended December 31, 2008.

The gross amount of unrecognized tax benefits is calculated as the undiscounted cumulative impact of such positions on taxable income before timing-related reversals that have yet to be realized and before the application of losses carried forward multiplied by the applicable tax rate for the estimated period when such benefit will be realized.

Years ended December 31	2008			2007		
	Unrecognized tax benefits			Unrecognized tax benefits		
(millions)	Gross	Component sheltered by losses carried forward	Component comprised of capital losses	Gross	Component sheltered by losses carried forward	Component comprised of capital losses
Balance, beginning of period	\$ 951	\$ 630	\$ 162	\$ 848	\$ 368	\$ 186
Tax positions related to prior years						
Additions for tax returns filed during the year, less prior year estimates	7	(11)	–	222	168	–
	958	619	162	1,070	536	186
Tax positions related to current year						
Reduction for timing items deductible in the year	(119)	(119)	–	(49)	(49)	–
Acquisitions	25	28	–	–	–	–
Other changes in estimates	52	(10)	–	–	–	–
Estimated additions	71	69	–	110	110	–
Reductions	–	–	–	–	–	–
Settlements	(94)	(57)	–	(135)	50	–
Current period reduction in losses	–	(207)	–	–	–	–
Lapses in statutes of limitations	(12)	(7)	–	(4)	–	–
Adjustments for tax rate changes	(14)	(6)	(6)	(41)	(17)	(24)
Balance, end of period	\$ 867	\$ 310	\$ 156	\$ 951	\$ 630	\$ 162

Included in the balance at December 31, 2008 and 2007, excluding net capital losses, are tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. In addition, the Company has losses carried forward that are available to be applied against unrecognized tax benefits. As a result, the impact on the annual effective tax rate is significantly less than the gross amount of gross unrecognized tax benefits noted above.

The gross reserves are adjusted for tax rate changes applicable to current and future taxation years based on the expected timing of loss utilization.

In the application of both Canadian GAAP and U.S. GAAP, the Company accrues for interest charges on current tax liabilities that have not been funded, which would include interest and penalties arising from uncertain tax positions. The Company includes such charges as a component of Financing costs. As at January 1, 2007, the Company had recorded accrued interest payable of \$8 million in respect of differences between the times tax-related exposures have been funded compared to the times the tax-related exposures may have come into existence, as well as interest receivable of \$9 million. During the year ended December 31, 2008, the Company recorded interest income of \$8 million (2007 – \$26 million) in respect of income taxes, recorded interest expense of \$5 million (2007 – \$NIL), reversed interest expense of \$NIL (2007 – \$4 million) and collected \$1 million (2007 – \$34 million) of interest receivable.

As at December 31, 2008, it is reasonably possible that the Company's net unrecognized tax benefits will significantly increase and decrease in the next twelve months for the following items:

- It is expected that Notices of Reassessment will be issued and/or settlements will be reached with various government authorities over the next twelve months that are expected to effectively settle a number of uncertain tax positions and result in adjustments to the effective tax rate and gross unrecognized tax benefits including the abandonment of any remaining unrecognized tax benefits. Certain presently unrecognized tax benefits pertain to a number of items involving uncertainty as to the exact taxation period tax deductions may be claimed among periods of changing statutory tax rates. It is estimated the gross amount of the unrecognized tax benefits that are expected to be resolved ranges from \$120 million to \$140 million (2007 – \$25 million to \$35 million).

- For those items that are timing in nature, it is reasonably possible that the gross unrecognized tax benefits will decrease by \$50 million to \$60 million (2007 – \$70 million to \$80 million) as temporary differences are drawn down.
- It is reasonably possible that the Company's net and gross unrecognized tax benefits will decrease due to the expected lapse of the statute of limitations that would otherwise allow governmental authorities to challenge positions taken in tax returns for certain prior taxation years. Such unrecognized tax benefits are reasonably estimated at \$1 million (2007 – \$2 million).
- During the next twelve months, the Company will file tax returns covering the period ended December 31, 2008, as required by statute. The returns are likely to contain unrecognized tax benefits that are different than what has been quantified above. As the positions will only be finalized at the time the tax returns are prepared, the amount of such benefits cannot be estimated with certainty prior to that time.

As at December 31, 2008, income tax returns, whether filed or not, pertaining to taxation years that remain open to examination by major jurisdictions are as follows:

As at December 31	2008		2007	
	Restricted to appeals	Other	Restricted to appeals	Other
Canada – Federal	1999–2001, 2003	2002, 2004–2008	1999–2000	2001–2007
Canada – provincial	1999–2000	2001–2008	1999–2000	2001–2007
United States	N/A	2005–2008	N/A	2004–2007

(f) Comprehensive income (loss)

U.S. GAAP requires that a statement of comprehensive income be displayed with the same prominence as other financial statements.

Comprehensive income, which incorporates net income, includes all changes in equity during a period except those resulting from investments by and distributions to owners.

Years ended December 31	2008			2007		
	Canadian GAAP other comprehensive income (loss)	Pension and other benefit plans	U.S. GAAP other comprehensive income (loss)	Canadian GAAP other comprehensive income (loss)	Pension and other benefit plans	U.S. GAAP other comprehensive income (loss)
(millions)						
Amount arising	\$ (35)	\$ (307)	\$ (342)	\$ 115	\$ 154	\$ 269
Income tax expense (recovery)	(9)	(82)	(91)	41	45	86
Net	(26)	(225)	(251)	74	109	183
Accumulated other comprehensive income (loss), beginning of period	(104)	(165)	(269)	(178)	(274)	(452)
Accumulated other comprehensive income (loss), end of period	\$ (130)	\$ (390)	\$ (520)	\$ (104)	\$ (165)	\$ (269)

The closing accumulated other comprehensive income amounts in respect of components of net periodic benefit costs not yet recognized, and the amounts expected to be recognized in fiscal 2009, are as follows:

As at December 31	2008				2007			
	Accumulated other comprehensive income amounts			Amounts expected to be recognized in 2009	Accumulated other comprehensive income amounts			
(millions)	Gross	Tax effect	Net		Gross	Tax effect	Net	
Pension benefit plans								
Unamortized net actuarial loss (gain)	\$ 938	\$ 277	\$ 661	\$ 36	\$ 629	\$ 197	\$ 432	
Unamortized past service costs	33	11	22	4	31	10	21	
Unamortized business combination difference	(413)	(128)	(285)	5	(412)	(130)	(282)	
	558	160	398	45	248	77	171	
Other benefit plans								
Unamortized net actuarial loss (gain)	(12)	(3)	(9)	(2)	(10)	(3)	(7)	
Unamortized business combination difference	1	–	1	1	2	1	1	
	(11)	(3)	(8)	(1)	(8)	(2)	(6)	
	\$ 547	\$ 157	\$ 390	\$ 44	\$ 240	\$ 75	\$ 165	

**(g) Recently issued accounting standards
not yet implemented**

Business combinations and non-controlling interests: Under U.S. GAAP, effective for its 2009 fiscal year, the Company will be required to comply with new standards in respect of business combinations and accounting for non-controlling interests, as prescribed by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 141(R), *Business Combinations*, and Financial Accounting Standards Board Statement of Financial Accounting Standards No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51*, respectively. The issuance of these standards is the culmination of the first major collaborative convergence undertaking of the Financial Accounting Standards Board and the International Accounting Standards Board. Whether the Company would be materially affected by the new standards would depend upon the specific facts of the business combinations, if any, occurring on or after January 1, 2009. Generally, the new standards will result in measuring business acquisitions at the fair value of the acquired entities and a prospectively applied shift from a parent company conceptual view of consolidation (which results in the parent company recording the book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording the fair values attributable to non-controlling interests). Early adoption of these standards is prohibited. As discussed further in Note 2(e), effective January 1, 2009, the Company early adopted the corresponding new Canadian standards.

Derivative instrument disclosure requirements: Under U.S. GAAP, effective for its 2009 fiscal year, the Company will be required to comply with new standards in respect of derivative instrument disclosures, as prescribed by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. The Financial Accounting Standards Board notes that there are a number of similarities between the disclosures required under the new standard and those required under International Financial Reporting Standard, *Financial Instruments: Disclosure* (IFRS 7), but that the new standard was developed under a more limited scope of derivatives and non-derivative hedging instruments than was IFRS 7 (the changes in financial instrument disclosures referred to in Note 2(b) were the result of Canada's Accounting Standards Board's converging Canadian GAAP with IFRS 7). The Company will not be materially affected by the provisions of this standard.

Other: As would affect the Company, there are no other U.S. accounting standards currently issued and not yet implemented that would differ from Canadian accounting standards currently issued and not yet implemented.

glossary

1X: Technology standard for 3G (third generation) high-speed wireless Internet service at speeds of up to 153 Kbps. 1X was the first step in the CDMA2000 evolution. 1X provides enhanced voice network capacity as well as high-speed packet data mobile wireless Internet access.

3G (third generation): Describes wireless technology that offers high-speed packet data mobile wireless Internet access and multimedia communications at minimum transmission rates of 144 Kbps in mobile (outdoor) and two Mbps in fixed (indoor) environments. Analog cellular is the first generation of wireless and digital is the second.

4G (fourth generation): Describes the next generation of future wireless technology, which is still in the developmental stages. Long-term evolution (LTE) has emerged as the leading technology for adoption as 4G.

ADSL (asymmetric digital subscriber line): A technology that allows existing copper telephone lines to carry voice, data and video images at high speeds. It is asymmetric in that it uses most of the channel to transmit downstream to the user and only a small part to receive information upstream from the user.

ADSL2+: Increases the downstream data rate of ADSL to as much as 24 Mbps. These rates can be increased further by bonding multiple lines together to get data rates of up to 48 Mbps.

AWS (advanced wireless services) spectrum: AWS spectrum in the 2 GHz range, which is expected to be utilized in North America for 4G services.

bandwidth: The difference between the top and bottom limiting frequencies of a continuous frequency band, or indicator of the information-carrying capacity of a channel. A greater bandwidth provides a greater information-carrying capacity.

bits per second (bps): A measurement of data transmission speed for the amount of data transferred in a second between two telecommunications points or within network devices. Kbps (kilobits per second) is thousands of bits per second; Mbps (megabits per second) is millions; and Gbps (gigabits per second) is billions.

CDMA (code division multiple access): A wireless technology that spreads a signal over a frequency band that is larger than the signal to enable the use of a common band by many users, and to achieve signal security and privacy. CDMA2000 refers to the family of third generation wireless standards that use CDMA.

CLEC (competitive local exchange carrier): A category of telecommunications carriers, identified for regulatory purposes, that provide local exchange service in competition with an ILEC, using both the CLEC's own switching and network or the CLEC's switching facilities and a combination of either the CLEC's network facilities or an ILEC's unbundled network facilities.

CRTC (Canadian Radio-television and Telecommunications Commission): The federal regulator for radio and television broadcasters, and cable-TV and telecommunications companies in Canada.

digital: A transmission method employing a sequence of discrete, distinct pulses that represent the binary digits 0 and 1 to indicate specific information, in contrast to the continuous signal of analog. Digital networks provide improved clarity, capacity, features and privacy compared to analog systems.

EVDO (evolution data optimized): Part of the CDMA family of standards, EVDO is wireless radio broadband protocol that delivers data download rates of up to 2.4 Mbps. It is suitable for high bandwidth download applications such as enterprise VPN computing, music transfers and video streaming. EVDO Rev A (DORa), the next generation of EVDO, adds data download rates of up to 3.1 Mbps, upload rates of up to 1.8 Mbps and higher system capacity, as well as improved quality of service support for data packet applications.

fibre network: Transmits information by light pulses along hair-thin glass fibres, making it useful for transmitting large amounts of data between computers or many simultaneous telephone conversations.

forbearance: Policies refraining from the regulation of telecom services, allowing for greater reliance on competition and market forces.

GPON (gigabit-capable passive optical network): A fibre-based transmission technology that delivers data download rates of up to 2.5 Gbps and upload rates of up to 1.25 Gbps.

financial definitions

See Section 11 of the Management's discussion and analysis for:

ARPU (average revenue per subscriber unit per month)

churn per month

COA (cost of acquisition)

COA per gross subscriber addition

dividend payout ratio

EBITDA (earnings before interest, taxes, depreciation and amortization)

EBITDA excluding COA

EBITDA excluding restructuring costs

EBITDA excluding restructuring costs interest coverage

free cash flow

interest coverage on long-term debt

net debt

net debt to EBITDA excluding restructuring costs

net debt to total capitalization

net interest cost

retention spend to network revenue

total capitalization – book value

GPS (global positioning system): A radio navigation system that allows users to determine and communicate their exact location, from anywhere in the world.

GSM (global system for mobile communication): A digital PCS mobile phone standard used in many parts of the world.

hosting: The management of data, which incorporates the business of housing, serving and maintaining files for one or more websites.

hotspot: A Wi-Fi wireless access point in a public place.

HSPA (high-speed packet access): A 3.5 or higher generation GSM technology capable of delivering wireless data download speeds of up to 30 Mbps.

iDEN (integrated digital enhanced network): A network technology developed by Motorola to utilize 800 MHz channels for digital service. The digital signals offer greatly enhanced spectrum efficiency and system capacity. TELUS uses this technology for its Mike service, which also includes PTT service.

ILEC (incumbent local exchange carrier): An established telecommunications company providing local telephone service.

IP (Internet protocol): A packet-based protocol for delivering data across networks.

IP-based network: A network designed using IP and QoS (quality of service) technology to reliably and efficiently support all types of customer traffic including voice, data and video. An IP-based network enables a variety of IP devices and advanced applications to communicate over a single common network.

IP TV (Internet protocol television): Television service that uses a two-way digital broadcast signal sent through a switched telephone or other network by way of broadband connection. The TELUS service is trademarked as TELUS TV.

LAN (local area network): A way of connecting several computers, typically in the same room or building, so they can share files and devices such as printers and copiers.

local loop: The transmission path between the telecommunications network and a customer's terminal equipment.

LTE (long-term evolution): An evolving 4G mobile communications technology, capable of wireless broadband speeds of up to 100 Mbps, with commercial deployment expected to start in 2010 or later.

MMS (multimedia messaging service): Allows wireless customers to send and receive messages that contain formatted text, graphics, photographs, and audio and video clips.

MVNO (mobile virtual network operator): A mobile service operator without licensed spectrum or network that leases wireless capacity from other carriers to resell to end customers.

non-ILEC (non-incumbent local exchange carrier): The telecommunications operations of TELUS outside its traditional operating territories, where TELUS competes with the incumbent telephone company (e.g. Ontario and Quebec).

PCS (personal communications services): Digital wireless voice, data and text messaging services in the 1.9 GHz frequency range.

POP: One person living in a populated area that is included in a network's coverage area.

postpaid: A conventional method of payment for wireless service where a subscriber pays for a significant portion of services and usage in arrears, after consuming the services.

prepaid: A method of payment for wireless service that allows a subscriber to prepay for a set amount of airtime in advance of actual usage.

PTT (Push To Talk): A two-way communication service that works like a walkie-talkie using a button switch. With PTT, communication can only travel in one direction at any given moment. PTT is provided by TELUS through its Mike service using iDEN technology.

roaming: A service offered by wireless network operators that allows subscribers to use their mobile phones while in the service area of another operator.

smartphone: An advanced mobile device or personal digital assistant (PDA) that provides text messaging, e-mail, multimedia downloads and social networking (e.g. Facebook Mobile) functionality in addition to voice.

SMS (short messaging service): A wireless messaging service that permits the transmission of a short text message from and/or to a digital wireless device.

spectrum: The range of electromagnetic radio frequencies used in the transmission of sound, data and video. The capacity of a wireless network is in part a function of the amount of spectrum licensed and utilized by the carrier.

VDSL2 (very high-speed digital subscriber line 2): The next generation of DSL technologies offering accelerated data download rates of up to 55 Mbps and upload rates of up to 30 Mbps.

VoIP (voice over Internet protocol): The transmission of voice signals over the Internet or IP network.

VPN (virtual private network): A private data network that makes use of a public telecommunications infrastructure, maintaining privacy through the use of a private secure network and security procedures.

WAN (wide area network): A data network extending a LAN outside its building, over telecommunication lines or wirelessly, to link with other LANs over great distances.

Wi-Fi (wireless fidelity): The commercial name for networking technology that allows any user with a Wi-Fi enabled device to connect to a wireless access point (e.g. hotspot) supporting speeds of more than 100 Mbps.

WiMax: A standards-based wireless technology that provides high throughput broadband connections over long distances.



Visit telus.com/glossary for additional terms and definitions.

investor information

Stock exchanges and TELUS trading symbols

Toronto Stock Exchange (TSX)

Common shares	T
Non-voting shares	T.A

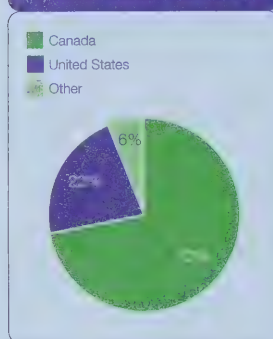
New York Stock Exchange (NYSE)

Non-voting shares	TU
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Member of

- S&P/TSX Composite Index
- S&P/TSX 60 Index
- S&P/TSX Telecom Index
- Dow Jones Sustainability Index (DJSI) – Global and North American
- MSCI World Telecom Index
- Jantzi Social Index
- FTSE4Good Index

ESTIMATED SHARE OWNERSHIP BY REGION (%)



Share facts

- Common and non-voting shares receive the same dividend
- Common and non-voting shares have the same rights and privileges, with the exception of voting rights
- If federal foreign ownership restrictions were removed, non-voting shares may convert on a one-for-one basis to common shares.

Registered shareholders¹

	2008	2007
TELUS common	30,882	31,622
TELUS non-voting	28,997	29,937

¹ The Canadian Depository for Securities (CDS) represents one registration and holds securities for many institutions. At the end of 2008, it was estimated that TELUS had more than 120,000 non-registered shareholders combined in the two classes of shares.

Ownership at December 31, 2008

	Number of shares held	% of total
TELUS Employee Share Plan	7,769,528	2.4%
Common shares widely held	167,047,986	52.6%
Non-voting shares widely held	142,831,858	45.0%
Total outstanding shares	317,649,372	100.0%

TELUS estimates that approximately 75% of its shares are held by institutional investors and 25% by retail investors.

Cash returned to shareholders

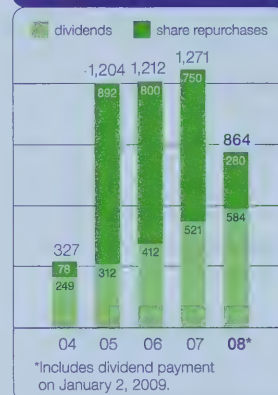
Dividend developments

In November 2008, TELUS announced a 5.6% or 2.5 cent increase to the quarterly dividend payable on January 2, 2009, bringing it to 47.5 cents per share or \$1.90 on an annualized basis.

The increase is consistent with the forward-looking dividend payout ratio guideline, set in 2004, of 45 to 55% of sustainable net earnings. The guideline provides investors with greater clarity and is a framework to assess the potential for future dividend increases.

TELUS advises that, unless noted otherwise, all common and non-voting share quarterly dividends paid since January 2006 are eligible dividends as defined by subsection 89(1) of the *Income Tax Act*. Under this legislation, individuals resident in Canada may be entitled to enhanced dividend tax credits that reduce the income tax otherwise payable. The exception to the above is with respect to the dividends paid on April 1, 2007, where \$0.0025 of the \$0.375 dividends paid to both common and non-voting shares were not eligible dividends.

CASH RETURNED TO SHAREHOLDERS (\$ millions)



Share repurchases

On December 19, 2008, TELUS implemented a fifth normal course issuer bid (NCIB) to allow for the possibility of repurchasing up to four million of its outstanding common shares and up to four million of its outstanding non-voting shares for up to a 12-month period.

In 2008, TELUS repurchased 6.8 million shares for \$280 million. In total, since December 2004, we have repurchased 59.8 million shares for \$2.8 billion.

TELUS believes that these purchases constitute an attractive investment opportunity and a desirable use of TELUS' funds that should enhance the value of the remaining shares.

Dividend reinvestment and share purchase plan

You can take advantage of automatic dividend reinvestment to acquire additional shares without fees. Under this feature, eligible shareholders can have their dividends reinvested automatically into additional non-voting shares acquired at market price.

Under the share purchase feature, eligible shareholders can, on a monthly basis, buy TELUS non-voting shares (maximum \$20,000 per calendar year and minimum \$100 per transaction) at market price without brokerage commissions or service charges.



Visit telus.com/drisp or contact Computershare for information and enrolment forms.

2009 expected dividend¹ and earnings dates

	Ex-dividend dates ²	Dividend record dates	Dividend payment dates	Earnings release dates
Quarter 1	March 9	March 11	April 1	May 7
Quarter 2	June 8	June 10	July 2	August 7
Quarter 3	September 8	September 10	October 1	November 6
Quarter 4	December 9	December 11	January 4, 2010	February 12, 2010

1 Dividends are subject to Board of Directors' approval.

2 Shares purchased on this date forward will not be entitled to the dividend payable on the corresponding dividend payment date.

Per-share data

	2008	2007	2006	2005	2004	2003	2002	2001
Basic earnings ¹	\$ 3.52	\$ 3.79	\$ 3.33	\$ 2.01	\$ 1.63	\$ 0.97	\$ (0.70)	\$ 1.56
Dividends declared ¹	\$ 1.825	\$ 1.575	\$ 1.20	\$ 0.875	\$ 0.65	\$ 0.60	\$ 0.60	\$ 1.20
Dividend declared payout ratio	52%	42%	36%	44%	40%	62%	N/A	77%
Common shares								
Closing price	\$ 37.17	\$ 49.44	\$ 53.52	\$ 47.86	\$ 36.22	\$ 25.95	\$ 17.45	\$ 24.25
Dividend yield	4.9%	3.2%	2.2%	1.8%	1.8%	2.3%	3.4%	4.9%
Price to earnings ratio	11	13	16	24	22	27	N/A	16
Non-voting shares								
Closing price	\$ 34.90	\$ 48.01	\$ 52.03	\$ 46.67	\$ 34.74	\$ 24.20	\$ 16.15	\$ 23.25
Dividend yield	5.2%	3.3%	2.3%	1.9%	1.9%	2.5%	3.7%	5.2%
Price to earnings ratio	10	13	16	23	21	25	N/A	15

1 Per common share and non-voting share unless otherwise noted.

Share prices and volumes

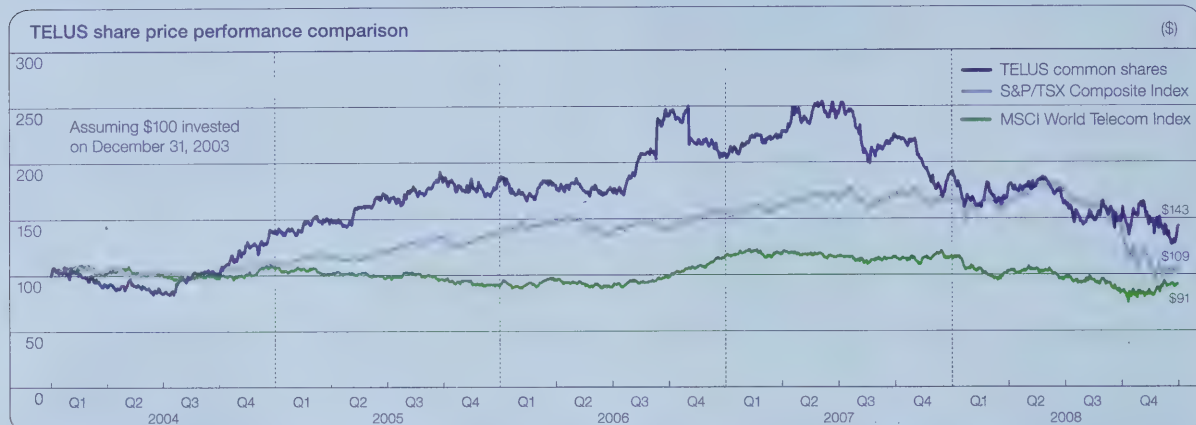
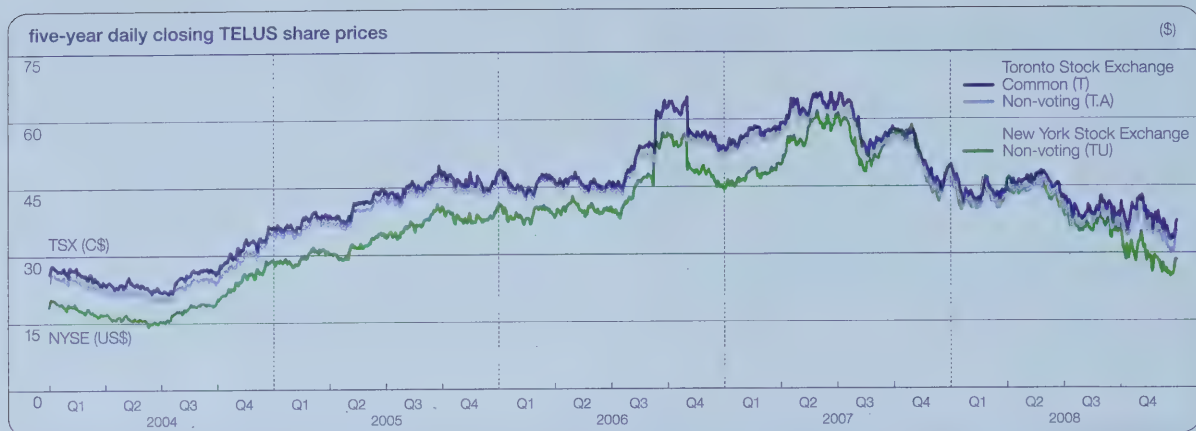
Toronto Stock Exchange

Common shares (T)	2008					2007				
	Year 2008	Q4	Q3	Q2	Q1	Year 2007	Q4	Q3	Q2	Q1
(C\$ except volume)										
High	49.90	43.66	43.76	48.87	49.90	66.45	58.95	65.99	66.45	60.80
Low	32.27	32.27	36.01	42.10	41.05	41.97	41.97	51.12	58.65	53.00
Close	37.17	37.17	38.87	42.87	44.70	49.44	49.44	57.50	63.77	58.90
Volume (millions)	232.0	61.3	59.2	46.7	64.8	275.2	75.3	70.2	64.6	65.1
Dividend declared (per share)	1.825	0.475	0.45	0.45	0.45	1.575	0.45	0.375	0.375	0.375

Non-voting shares (T.A)	2008					2007				
	Year 2008	Q4	Q3	Q2	Q1	Year 2007	Q4	Q3	Q2	Q1
(C\$ except volume)										
High	48.49	41.12	42.21	47.14	48.49	65.80	57.28	64.93	65.80	59.22
Low	29.70	29.70	35.29	40.26	39.41	40.37	40.37	50.26	57.24	51.38
Close	34.90	34.90	38.11	41.49	43.25	48.01	48.01	56.00	62.75	57.62
Volume (millions)	140.5	33.2	33.8	28.7	44.8	222.9	51.0	50.1	61.0	60.8
Dividend declared (per share)	1.825	0.475	0.45	0.45	0.45	1.575	0.45	0.375	0.375	0.375

New York Stock Exchange

Non-voting shares (TU)	2008					2007				
	Year 2008	Q4	Q3	Q2	Q1	Year 2007	Q4	Q3	Q2	Q1
(US\$ except volume)										
High	48.87	37.32	41.02	47.89	48.87	62.46	58.64	62.46	61.85	51.16
Low	24.19	24.19	33.26	39.83	38.41	39.67	39.67	46.85	49.60	44.23
Close	28.42	28.42	35.56	40.33	41.85	48.26	48.26	56.15	58.92	50.00
Volume (millions)	37.7	17.9	7.8	4.9	7.2	21.8	6.9	6.0	4.9	4.0
Dividend declared (per share)	1.69	0.378	0.421	0.442	0.454	1.47	0.445	0.356	0.353	0.32



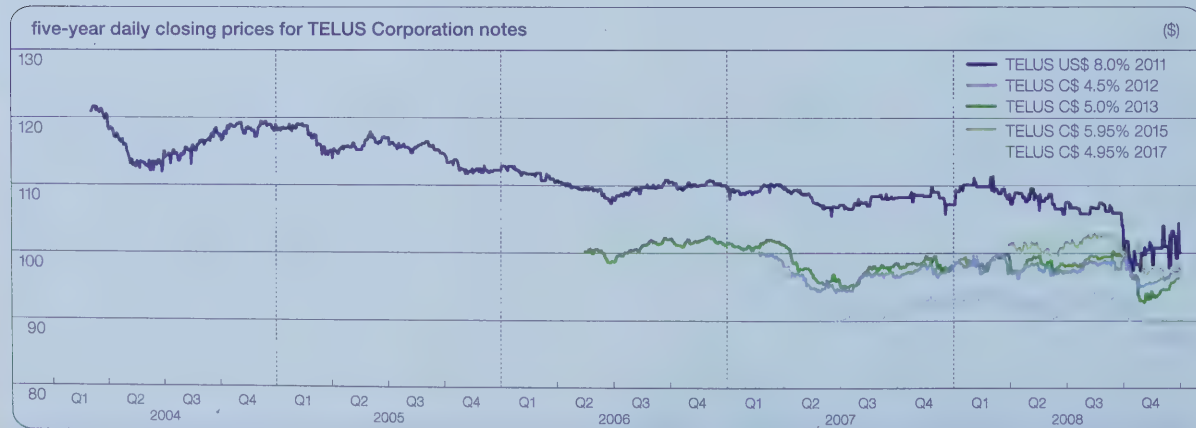
TELUS Corporation notes

	Rate	Amount	Maturing
U.S. dollar Notes	8.0%	US\$1.9 billion	June 2011
Notes, Series CC	4.5%	C\$0.3 billion	March 2012
Notes, Series CB	5.0%	C\$0.3 billion	June 2013
Notes, Series CE	5.95%	C\$0.5 billion	April 2015
Notes, Series CD	4.95%	C\$0.7 billion	March 2017

For details and a complete list of notes, debentures and other publicly traded debt of the Company and the Company's subsidiaries, refer to Note 18 of the Consolidated financial statements

Credit rating summary

	As of December 31, 2008	DBRS Ltd.	Standard & Poor's Rating Services	Moody's Investors Service	FitchRatings
Trend or outlook		Stable	Stable	Stable	Stable
TELUS Corporation					
Notes		A (low)	BBB+	Baa1	BBB+
Commercial paper		R-1 (low)	—	—	—
TELUS Communications Inc.					
Debentures		A (low)	BBB+	—	BBB+
Medium-term notes		A (low)	BBB+	—	BBB+
First mortgage bonds		A (low)	A—	—	—



Investor relations activities

2008 conferences and meetings

- Four conference appearances – two in Canada and two in the United States – most of which were webcast for easy access by shareholders
- European investor meetings in two cities
- Conference calls with webcast – four quarterly earnings calls, one 2009 targets call and one special announcement for new wireless network
- Annual and special meeting with webcast
- Meetings with 157 investors – 97 in Canada, 45 in the United States and 15 in Europe.

2008 key investment events

- In January, TELUS completed the acquisition of Emergis for \$743 million
- In April, TELUS issued 5.95% Series CE seven-year Notes with gross proceeds of \$500 million
- In July, TELUS purchased 59 spectrum licences for \$882 million in the two-month advanced wireless services (AWS) spectrum auction held by Industry Canada
- In October, TELUS announced that it will build a next generation high-speed packet access (HSPA) wireless network as an interim step to fourth generation long-term evolution (LTE) technology
- TELUS repurchased 6.8 million shares for \$280 million under its normal course issuer bid in 2008.

2008 awards

- The TELUS 2007 annual report received an A+ rating and was ranked third in the world in the Annual Report on Annual Reports 2008, an international ranking of annual reports
- TELUS received five awards from the Canadian Institute of Chartered Accountants (CICA) for the 2007 corporate reporting package, which includes the annual report, information circular, corporate social responsibility report and online investor relations and corporate governance information. The awards included:
 - Overall Award of Excellence for Corporate Reporting in Canada, for the second year in a row
 - Award of Excellence for Financial Reporting, for the first time
 - Award of Excellence for Corporate Reporting in the Communications and Media category, the 14th year TELUS has been honoured in this category
 - Honourable Mention for Excellence in Corporate Governance Disclosure, the fourth year of recognition in this category
 - Honourable Mention for Excellence in Sustainable Development Reporting, the second year of recognition in this category
- TELUS qualified for the North American and World Dow Jones Sustainability Indexes (DJSI) for the eighth consecutive year. TELUS is the only North American telecommunications company and one of only 10 Canadian companies listed on the World Index.

Analyst coverage

As of February 2009, 20 equity analysts covered TELUS. For a detailed list, see the investor fact sheet on telus.com/investors.

Information for security holders outside of Canada

Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to Canadian non-resident withholding tax of 15%. If you have any questions, contact Computershare.

For individual investors who are U.S. citizens and/or U.S. residents, quarterly dividends paid on TELUS Corporation common and non-voting shares are considered qualified dividends under the Internal Revenue Code and may be eligible for special U.S. tax treatment.

Reservation system – non-Canadian common shares

Under federal legislation, total non-Canadian ownership of common shares of Canadian telecommunications companies, including TELUS, is limited to 33⅓%. A reservation system controls and monitors this level. This system requires non-Canadian purchasers of common shares to obtain a reservation number from Computershare by contacting the Reservations Unit at 1-877-267-2236 (toll-free) or telusreservations@computershare.com. The purchaser is notified within two hours if common shares are available for registration. There are no ownership restrictions on non-voting shares.

Merger and acquisitions – shareholder impact

BC TELECOM, TELUS and QuébecTel

The common shares of BC TELECOM, pre-merger TELUS Corporation and QuébecTel no longer trade on any stock exchange. If you did not exchange your share certificates by the expiry date of January 31, 2005 for BC TELECOM and pre-merger TELUS Corporation, and June 1, 2006 for QuébecTel, you ceased to have any claim against TELUS or any entitlement relating to those shares. If you have questions regarding unexchanged share certificates, please contact Computershare.

For capital gains purposes, valuation dates and prices are as follows:

(C\$)	Valuation date	Price	Price when exchanged into TELUS shares
BC TELECOM	December 22, 1971	6.375	6.375
BC TELECOM	February 22, 1994	25.250	25.250
Pre-merger TELUS	February 22, 1994	16.875	21.710

Cleartnet

TELUS completed its offer to purchase all of the outstanding common shares of Cleartnet Communications Inc. on January 12, 2001. If you still hold share certificates for Cleartnet, you must tender your shares to Computershare to receive consideration.

Upon exchange of your Cleartnet shares for TELUS non-voting shares, you will receive dividend payments retroactive to April 1, 2001.

Emergis

TELUS completed its offer to purchase all of the outstanding common shares of Emergis Inc. for \$8.25 cash per common share on January 17, 2008. If you still hold share certificates for Emergis, you must tender your shares to Computershare to receive consideration.



Visit telus.com/m&a for additional information on how your shareholdings have been affected by various merger and acquisition transactions.

e-delivery of shareholder documents

We invite you to sign up for electronic delivery of TELUS information by visiting telus.com/electronicdelivery. The benefits of e-delivery include access to important company documents in a convenient, timely and environmentally friendly manner that also reduces printing and mailing costs. Approximately 38,000 of our shareholders receive information by e-delivery.

Registered shareholders

TELUS has partnered with eTree to allow registered shareholders the opportunity to receive the annual report and annual meeting materials through e-delivery. As a thank you for enrolling, TELUS and the Tree Canada Foundation will plant a tree on your behalf. With this and other programs, TELUS has contributed 157,000 trees across Canada on behalf of shareholders, customers and team members.

To register, visit eTree.ca and you will receive all annual report and proxy materials electronically. You will be notified by e-mail with a link to the website where documents are available.

Beneficial shareholders

For shareholders who hold their shares with an investment dealer or financial institution, access investordelivery.com or contact your investment advisor to enrol for electronic delivery service.

Annual meeting of shareholders

On Thursday, May 7, 2009, the annual meeting will be held at 11 a.m. (Eastern Time) at the National Gallery of Canada on 380 Sussex Drive in Ottawa, Ontario. A live Internet webcast, complete with video and audio, will be available to shareholders around the world. Shareholders unable to attend the meeting in person can vote by Internet, telephone or mail. Visit telus.com/agm for details.

If you need help with the following...

- Dividend Reinvestment and Share Purchase Plan
- Change of address and e-delivery of shareholder documents
- Dividend payments or direct deposit of dividends
- Transfer or loss of share certificates and estate settlements
- Exchange of share certificates due to a merger or acquisition

contact the transfer agent and registrar

Computershare Trust Company of Canada

phone 1-800-558-0046 (toll-free within North America) or
+1 (514) 982-7129 (outside North America)
e-mail telus@computershare.com
website computershare.com

If you need help with the following...

- Additional financial or statistical information
- Industry and company developments
- Latest news releases and investor presentations

contact TELUS Investor Relations

John Wheeler

Vice-President, Investor Relations

phone 1-800-667-4871 (toll-free within North America) or
+1 (604) 643-4113 (outside North America)
e-mail ir@telus.com
website telus.com/investors

TELUS executive office

555 Robson Street
Vancouver, British Columbia
Canada V6B 3K9

phone (604) 697-8044
fax (604) 432-9681

TELUS general information

British Columbia (604) 432-2151
Alberta (403) 530-4200
Ontario (416) 507-7400
Quebec (514) 788-8050

Auditors

Deloitte & Touche LLP

EthicsLine hotline

As part of our ethics policy, this hotline allows team members and others to anonymously and confidentially raise accounting, internal controls and ethical inquiries or complaints.

phone 1-888-265-4112
e-mail ethicsline@telus.com

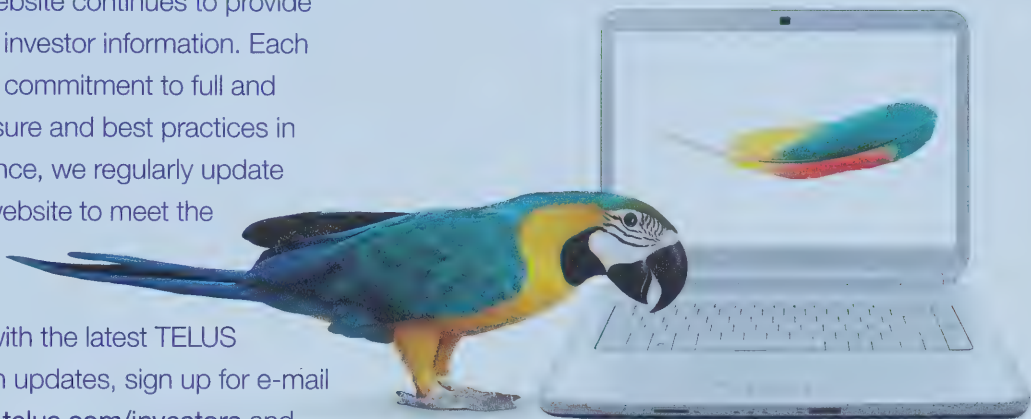


Ce rapport annuel est disponible en français en ligne à telus.com/rapportannuel, auprès de l'agent des transferts ou de TELUS – Relations avec les investisseurs.

get informed at telus.com

Our easy-to-use website continues to provide timely and relevant investor information. Each year, as part of our commitment to full and fair financial disclosure and best practices in corporate governance, we regularly update and enhance our website to meet the information needs of our investors.

To stay current with the latest TELUS investor information updates, sign up for e-mail alerts – simply visit telus.com/investors and click on e-mail alerts.



telus.com/investors

investor information

share information

- share charts
- historical price lookup
- investment calculator

investment profile

- our strategy
- executive leadership team
- board of directors
- company history
- analyst coverage

shareholder services

- electronic delivery
- forms
- office addresses
- merger & acquisitions impact

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- credit ratings summary

news & events

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- events archive
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also available

- corporate governance
- dividend information
- FAQ
- glossary
- investor contacts
- investor fact sheet
- media
- social responsibility

Quick links on telus.com	takes you to:
Link: telus.com/agm	annual meeting shareholder documents and proxy materials
telus.com/annualreport	TELUS annual report
telus.com/bios	TELUS executive team and board of directors' biographies
telus.com/community	community investment funding
telus.com/csr	TELUS corporate social responsibility report
telus.com/drisp	Dividend Reinvestment and Share Purchase Plan details
telus.com/electronicdelivery	sign up for e-delivery of shareholder documents
telus.com/glossary	glossary of terms
telus.com/governance	corporate governance website
telus.com/investorcall	latest webcast event launch page
telus.com/m&a	merger and acquisitions information
telus.com/privacy	privacy home page
telus.com/quarterly	latest quarterly financial documents

building on our environmental commitment



TELUS is committed to working in an environmentally responsible manner and to doing our part to help create sustainable communities.

The paper used in this report is certified by the Forest Stewardship Council (FSC), which means it comes from well-managed forests and known sources, ensuring local communities benefit and sensitive areas are protected.

TELUS has saved the following resources by using two types of environmentally friendly paper. The first paper, New Leaf Reincarnation Matte, is designated as Ancient Forest Friendly and is manufactured with electricity that is offset with Green-e certified renewable energy certificates. This paper has 100 per cent recycled fibre content and includes 50 per cent post-consumer waste.

The second paper, Rolland Enviro100 Print, is manufactured using biogas energy, which is generated from the decomposition of waste, and includes 100 per cent recycled fibre content, which

includes 100 per cent post-consumer waste. Both papers are processed as chlorine-free.

By using this paper, we are reducing our ecological footprint by*:

- Preserving 327 trees
- Saving 661,374 litres of wastewater
- Eliminating 9,024 kilograms of solid waste
- Preventing 19,203 kilograms of greenhouse gases
- Saving 125 million BTUs of energy.

We ask that you please recycle this annual report and the biodegradable polybag in which it was mailed. We promote the electronic delivery of TELUS information and invite you to sign up by visiting telus.com/electronicdelivery. Currently, 38,000 of our shareholders receive information by e-delivery.

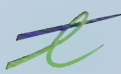
This report can also be viewed at telus.com/annualreport. For other examples of our commitment to the environment, please visit telus.com/csr.

*Calculations are based on research by Environmental Defense Fund and other members of the Paper Task Force.

The Ancient Forest Friendly logo represents the highest and most comprehensive standards for environmental responsibility in the paper industry. In order to be Ancient Forest Friendly, a paper must be manufactured with a high percentage of post-consumer waste and no virgin fibre from old-growth, ancient or endangered forests. Any virgin fibre used in the paper must be both FSC-certified and assessed to not originate from endangered forests. Bleaching must be chlorine-free, without the use of chlorine or chlorine compounds.



Mixed Sources
Product group from well-managed
forests, controlled sources and
recycled wood or fiber
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 **TELUS**
the future is friendly®

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Printed in Canada  (where facilities exist)

AR91

building on strength 08

corporate review

 **TELUS**
the future is friendly®



building on

the strength of our strategy

TELUS' strategy and the six

strategic imperatives that guide
our performance have been
in place since 2000.

Our strategic intent is to unleash
the power of the Internet to deliver
the best solutions to Canadians
at home, in the workplace and
on the move.

strategic imperatives

1

Focusing relentlessly on
growth markets of data,
Internet protocol (IP)
and wireless

2

Partnering, acquiring and
divesting to accelerate
the implementation of our
strategy and focus our
resources on core business

3

Building national
capabilities across data,
IP, voice and wireless

4

Providing integrated
solutions that differentiate
TELUS from our
competitors

5

Investing in internal
capabilities to build
a high-performance
culture and efficient
operation

6

Going to market as one
team, under a common
brand, executing
a single strategy

who we are

TELUS is a leading national telecommunications company in Canada, with \$9.7 billion of annual revenue and 11.6 million customer connections including 6.1 million wireless subscribers, 4.2 million wireline network access lines and 1.2 million Internet subscribers. As a result of our national growth strategy, in 2008, revenue grew by 6.4 per cent and total connections increased by 448,000. TELUS provides a wide range of communications products and services including data, IP, voice, entertainment and video.

we give where we live

In support of our philosophy to give where we live, TELUS, our team members and retirees have contributed more than \$135 million to charitable and not-for-profit organizations and volunteered more than 2.6 million hours of service to local communities since 2000. Nine TELUS Community Boards from Victoria to Atlantic Canada lead our local philanthropic initiatives.

our values

- We are a team. Growth and making a difference.
- We have a passion for growth
- We believe in spirited teamwork
- We have the courage to innovate



link inside for more about us

why invest in TELUS	1	our communities	18
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building on value

why invest in TELUS

Own a Canadian telecommunications company focused on data and wireless, with a consistent growth strategy that is generating robust cash flows from operations. Supported by the strength of our financial position and operational capabilities, TELUS continues to invest in the future while returning capital to investors.



We are building for the future by:

- Investing in strategic growth areas including our recently launched Koodo® wireless brand and service, a next generation wireless network, our broadband network, TELUS TV® service and managed data solutions for large enterprises
- Driving profit from our consistent national growth strategy focused on wireless and data
- Leveraging our strong brand and Future Friendly® suite of innovative wireline and wireless solutions for businesses and consumers alike
- Leading in wireless data growth with the widest selection of smartphones on TELUS' third generation high-speed network
- Enhancing the focus on our ongoing operational efficiency program
- Demonstrating a long-standing commitment to balance interests of debt and equity holders
- Sustaining a strong financial position and ample liquidity, with an enviable debt maturity profile
- Delivering on our dividend growth model for five years based on a dividend payout ratio guideline of 45 to 55% of sustainable net earnings
- Continuing strong performance with an eight-year track record for achieving the vast majority of our challenging annual consolidated financial targets
- Providing global leadership in financial reporting and disclosure excellence, corporate governance best practices, social responsibility and sustainability.

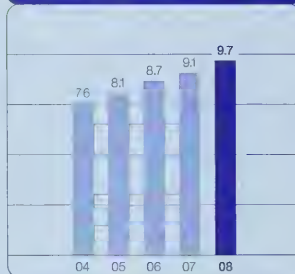
building on

success

2008 highlights



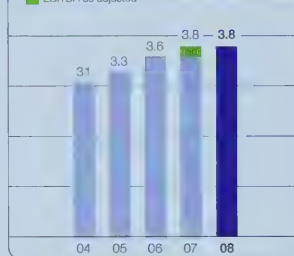
REVENUE (\$ billions)



Revenue increased 6.4% driven by wireless growth and wireline data primarily from the Emergis acquisition

EBITDA (\$ billions)

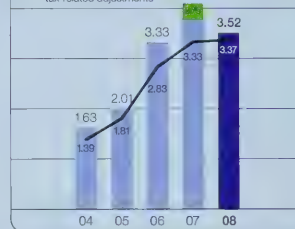
EBITDA as adjusted



EBITDA as adjusted increased 0.6% as the increase in wireless was offset by wireline restructuring costs and dilutive impacts of new growth services

EARNINGS PER SHARE (EPS) (\$)

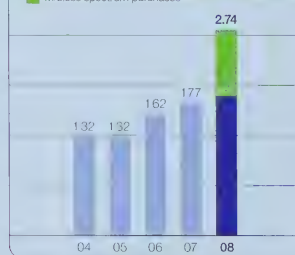
EPS as adjusted
— excluding income
tax-related adjustments



Underlying EPS was maintained, while EPS as adjusted decreased 14% due to lower positive tax-related impacts

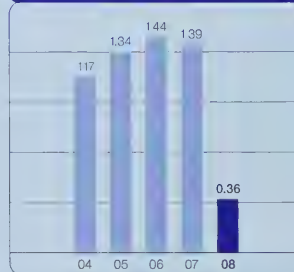
CAPITAL EXPENDITURES INCLUDING SPECTRUM (\$ billions)

wireless spectrum purchases



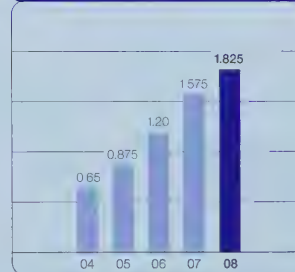
Capital expenditures, excluding spectrum, increased 5% to support new wireline enterprise customers and broadband services

FREE CASH FLOW (\$ billions)



Free cash flow decreased \$1.0 billion due to the \$882 million purchase of wireless spectrum and lower cash tax recoveries

DIVIDENDS DECLARED PER SHARE (\$)



Five years of dividend growth with the 2009 dividend set at a record \$1.90 annualized

FINANCIAL AND OPERATING HIGHLIGHTS

(\$ in millions, except per share amounts)

	2008	2007	% change (2008 to 2007)	2006	% change (2008 to 2006)
Operations					
Operating revenues	\$ 9,653	\$ 9,074	6.4	\$ 8,681	11
EBITDA ¹	\$ 3,779	\$ 3,589	5.3	\$ 3,615	4.5
EBITDA as adjusted ²	\$ 3,779	\$ 3,758	0.6	\$ 3,615	4.5
Operating income	\$ 2,066	\$ 1,974	4.7	\$ 2,039	1.3
Net income	\$ 1,128	\$ 1,258	(10)	\$ 1,145	(1.5)
Basic earnings per share (EPS)	\$ 3.52	\$ 3.79	(7.1)	\$ 3.33	5.7
Basic EPS as adjusted ²	\$ 3.52	\$ 4.11	(14)	\$ 3.33	5.7
Basic EPS as adjusted ³ , excluding income tax-related adjustments	\$ 3.37	\$ 3.33	1.2	\$ 2.83	19
Dividends declared per share	\$ 1.825	\$ 1.575	16	\$ 1.20	52
Dividend payout ratio (%) ³	54	47	—	45	—
Return on common equity (%)	15.8	18.1	—	16.4	—
Cash from operations	\$ 2,819	\$ 3,172	(11)	\$ 2,804	0.5
Capital expenditures	\$ 1,859	\$ 1,770	5.0	\$ 1,618	15
Payment for wireless spectrum	\$ 882	\$ —	—	\$ —	—
Financial position					
Total assets	\$ 19,160	\$ 16,988	13	\$ 16,661	15
Net debt ⁴	\$ 7,286	\$ 6,141	19	\$ 6,278	16
Net debt to EBITDA ratio ⁵	1.9	1.7	—	1.7	—
Free cash flow ⁶	\$ 361	\$ 1,388	(74)	\$ 1,443	(75)
Shareholders' equity	\$ 7,182	\$ 6,926	3.7	\$ 7,048	1.9
Market capitalization of equity ⁷	\$ 11,483	\$ 15,823	(27)	\$ 17,848	(36)
Other information (as at December 31)					
Wireless subscribers (000s)	5,423	5,568	10	5,056	21
Network access lines (000s)	4,404	4,404	(3.6)	4,548	(6.6)
Internet subscribers (000s)	1,175	1,175	3.8	1,111	9.8
Total customer connections ⁸	11,595	11,147	4.0	10,715	8.2

1 Earnings before interest, taxes, depreciation and amortization, calculated as Operating revenues less Operations expense, net-cash settlement feature expense and Restructuring costs.

2 Excludes a \$169 million incremental charge in 2007, which did not result in an immediate cash outflow, relating to the introduction of a net cash settlement feature for share option awards granted prior to 2005.

3 Last quarterly dividend declared per share, in the respective reporting period, annualized, divided by the sum of Basic earnings per share reported in the most recent four quarters.

4 The summation of Long-term debt, current maturities of Long-term debt, net deferred hedging liability related to U.S. dollar Notes and proceeds from securitized accounts receivable, less Cash and temporary investments.

5 Net debt to EBITDA, where EBITDA excludes Restructuring costs.

6 EBITDA, adding Restructuring costs, net employee defined benefit plans expense, the excess of share compensation expense over share compensation payments and interest received; and deducting restructuring payments, employer contributions to employee defined benefit plans, interest paid, cash income taxes, capital expenditures (including spectrum payments), donations and securitization fees. Note: the definition was refined in 2008 to incorporate defined benefit plans cash contributions instead of accrued net expense (recovery) for accounting purposes.

7 Market value based on year-end closing share prices and shares outstanding.

8 Total customer connections excludes TELUS TV subscribers.



building on cool products

TELUS wireless



We provide integrated digital wireless voice, data and Internet services on a digital PCS (CDMA) third generation high-speed network, and Push To Talk (PTT) services with Mike, on Canada's only iDEN network.

More than 6.1 million subscribers

Digital coverage to 98% of Canadians

Record digital subscriber net additions
of 588,000 in 2008

Industry-leading data revenue growth
from smartphone adoption

what we offer

digital voice – PCS (postpaid and Pay & Talk® prepaid) and Mike® all-in-one (iDEN); Push To Talk™ capability on both Mike (Direct Connect®) and PCS (Instant Talk®)
Internet and data services – SPARK™ services including TELUS Mobile TV®, TELUS Mobile Radio®, TELUS Mobile Music®, web browsing, Windows Live Messenger, social networking, text and picture messaging, and downloadable games, videos, ringtones and images

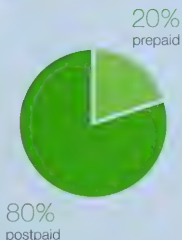
data devices – including smartphones and wireless connect cards available for use on wireless high-speed and Mike packet data networks

WIRELESS SUBSCRIBERS

millions



2008 SUBSCRIBER MIX



2008

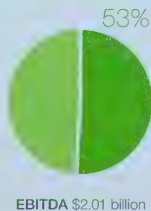
- Future-proofed our wireless technology roadmap with our decision to invest in long-term evolution (LTE) technology, the emerging worldwide technology standard, while deploying a high-speed packet access (HSPA) network as an interim step
- Enhanced our spectrum position with the \$882 million purchase of 59 spectrum licences (average of 16.2 MHz) across Canada for future fourth generation (4G) wireless data services and customer growth
- Launched a successful basic wireless service, branded as Koodo Mobile®, which received the highest customer satisfaction score for postpaid service providers in the 2008 Canadian wireless customer satisfaction study by J.D. Power and Associates
- Offered a comprehensive selection of smartphones, bringing Canadians the latest wireless devices including, late in the year, the highly anticipated touchscreen BlackBerry Storm
- Achieved record digital subscriber net additions and a 55% increase in wireless data revenue due to focused execution in the smartphone market and success in targeting certain market segments.

2008 RESULTS - WIRELESS

(share of TELUS consolidated)



revenue (external) \$4.63 billion



EBITDA \$2.01 billion

2009

- Continuing to focus on customer retention and maintaining low churn levels through customer service excellence, supported by the TELUS Future Friendly promises, which highlight our dependable networks, premium client care and innovative new phones
- Building a next generation HSPA wireless network, to be launched by early 2010, to provide clients with the widest choice of wireless solutions to best meet their needs
- Continuing to offer innovative new wireless data devices and applications for business and consumers that leverage our investment in nationwide higher-speed networks
- Growing wireless data usage and revenues through continued smartphone adoption and bundling with other TELUS solutions
- Leveraging flexibility of Koodo service in addressing various customer segments and augmenting distribution, while continuing to complement the full-service TELUS brand in the marketplace
- Generating up to \$2.175 billion in EBITDA from our wireless operations, an increase of up to 8%.

See the Caution regarding forward-looking statements summary on the inside front cover.

2009 TARGETS - WIRELESS

(share of TELUS consolidated)



revenue (external) \$4.975 to \$5.1 billion



EBITDA \$2.1 to \$2.175 billion



building on

innovation

TELUS wireline

We are a full-service incumbent local exchange carrier in B.C., Alberta and Eastern Quebec offering local, long distance, data, Internet, video, entertainment and other services to consumers and businesses. Nationally, we provide data, IP and managed solutions focusing on the business market in urban centres in Ontario and Quebec.

what we offer

voice – reliable phone service with long distance and call management services such as Voice Mail, Call Display and Call Waiting, and the sale, rental and maintenance of telephone equipment

Internet – secure high-speed or dial-up access with a comprehensive suite of security and entertainment services

TELUS TV – flexible digital entertainment service with high-definition TV, personal video recorder (PVR), Video on Demand and Pay Per View services

data – IP networks, private line, switched services, network wholesale, network management and hosting

converged voice and data – premier integrated and hosted IP telephony solutions through TELUS IP-One® business services

hosting and infrastructure – managed information technology and infrastructure solutions delivered through TELUS' IP networks and connected to our Internet data centres

security – managed and non-managed solutions to protect business networks, messaging and data, in addition to security consulting services

customized solutions – global multi-language contact centre solutions including CallCentreAnywhere, remote agent solutions with TELUS AgentAnywhere®, interactive voice response (IVR) and speech recognition services, conferencing and collaboration services, and performance optimization, human resource and health and safety outsourcing solutions

2.4 million residential network access lines

1.8 million business network access lines

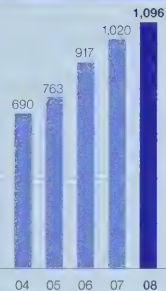
Second largest Internet service provider
in Western Canada

1.2 million Internet subscribers

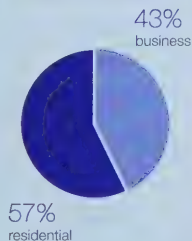
2008

- Launched TELUS TV in several Quebec communities and began mass marketing across Calgary and Edmonton, with the inclusion of high-definition TV and, late in the year, PVR services
- Continued to invest in increasing speed and coverage of our broadband infrastructure in B.C., Alberta and Eastern Quebec, which facilitated the expansion of TELUS Extreme High-Speed Internet service
- Implemented a consolidated order entry and billing platform for more than one million residential customers in B.C.
- Focused on key industry verticals and implementing major contracts for clients including the City of Montreal and Department of National Defence. Late in the year, we won a landmark seven-to-10-year contract with the Government of Quebec estimated at up to \$900 million
- Enhanced our leadership position in healthcare with the acquisition and integration of Emergis, launch of TELUS Health Solutions and a commitment to invest \$100 million over three years in the sector
- Generated wireline revenue growth of 4.4% driven primarily by data revenue from the Emergis acquisition in January and increased Internet, hosting and digital entertainment services.

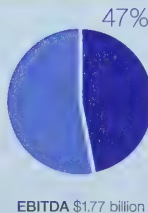
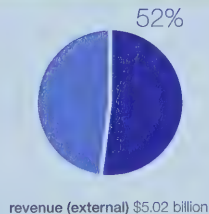
HIGH-SPEED INTERNET SUBSCRIBERS (000s)



2008 NETWORK ACCESS LINES



2008 RESULTS - WIRELINE
(share of TELUS consolidated)

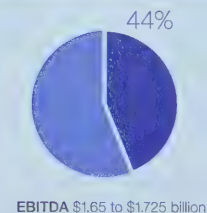
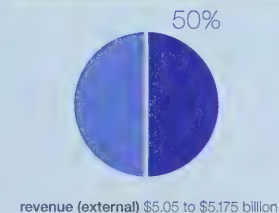


2009

- Bringing robust wireline solutions to market by expanding and enhancing our broadband footprint across B.C., Alberta and Eastern Quebec, including the continued roll-out of high-definition TV and PVR services
- Leveraging our Future Friendly Home suite of services by bundling voice, Internet and entertainment solutions, which enhances loyalty and retention so as to contain residential line losses
- Winning and implementing large complex deals focused on providing managed data solutions to key industry verticals in support of TELUS' national growth strategy
- Investing in efficiency initiatives to help mitigate both the short-term dilutive impact of growth investments on profit margins and revenue decline in certain areas due to technological substitution or competition
- Continuing to develop TELUS Health Solutions, with applications and technology infrastructure to support the evolution of the healthcare industry and help Canadians manage critical health information
- Growing revenues by up to 3%, to \$5.175 billion.

See the Caution regarding forward-looking statements summary on the inside front cover.

2009 TARGETS - WIRELINE
(share of TELUS consolidated)



2008 scorecard

At TELUS, we believe in setting annual financial targets to provide clarity for investors. This scorecard summarizes TELUS' 2008 performance against our original consolidated targets.

For further information, see Section 1.4 of the Management's discussion and analysis in the TELUS 2008 annual report – financial review.

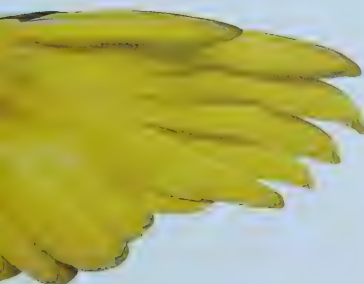
	2008 results	2008 original targets	Result
Consolidated			
Revenues	\$9.653 billion	\$9.6 to \$9.8 billion	✓
EBITDA	\$3.779 billion	\$3.8 to \$3.95 billion	✗
Basic earnings per share (EPS)	\$3.52	–	–
Basic EPS, excluding income tax-related adjustments	\$3.37	\$3.50 to \$3.80	✗
Capital expenditures	\$1.859 billion	\$1.9 billion approximately	✓

✓ Met target ✗ Did not meet target



2009 targets

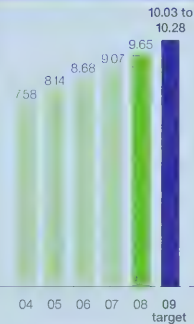
For additional information on 2009 financial targets, see Sections 1.4 through 1.6 of the Management's discussion and analysis in the TELUS 2008 annual report – financial review.



REVENUE* (\$ billions)

Generate revenue of more than \$10 billion

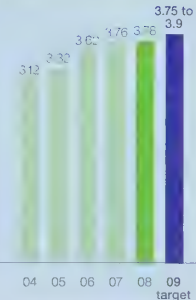
Increase of more than \$370 million or 4 to 6%, driven by continued wireless and data growth



EBITDA* (\$ billions)

Achieve EBITDA of \$3.75 to \$3.9 billion

Representing growth of up to 3%, supported by increased operating earnings in wireless and a focus on cost control

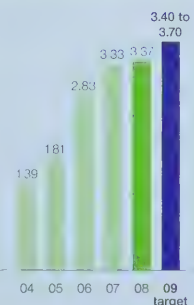


*2007 EBITDA adjusted to exclude a \$169 million net-cash settlement feature for past options expense

EPS* (\$)

Realize EPS of \$3.40 to \$3.70

Increase of up to 10%, on a comparable basis, due to continued EBITDA growth and fewer shares outstanding after share repurchases in 2008

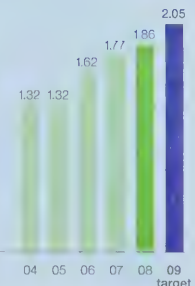


*Basic EPS as adjusted, excluding income tax-related adjustments and, in 2007, excluding 32 cents for a net-cash settlement feature

CAPITAL EXPENDITURES* (\$ billions)

Invest \$2.05 billion for long-term growth

Reflecting significant investments in TELUS' next generation wireless network, continued wireline broadband network enhancements, efficiency initiatives and new managed data contracts in Central Canada



*Excluding wireless spectrum costs in 2008

These 2009 targets are qualified in their entirety by the Caution regarding forward-looking statements on page 12 of the TELUS 2008 annual report – financial review.

building on strength



Dear investor,

2008 was a year of major accomplishments for TELUS, but also a year that presented significant challenges. Despite the unprecedented global economic uncertainty impacting our company, the industry and investors, our team is delivering on our strategy, building on the strength of our financial policies and performance, and making significant growth investments for the future.

TELUS' support for organizations such as the BC Children's Hospital helps children like 12-year-old Casey Haney, shown here with Darren Entwistle. After many years of numerous operations, intense physiotherapy and wearing a metal frame to lengthen her leg, Casey is now active like other kids her age.

Highlights of 2008

During these challenging economic times, we managed our business responsibly whilst continuing to make decisive moves that advance our growth strategy, increase our future competitiveness and grow shareholder value over the long term. Our financial and cash flow strength has enabled your company to invest in strategic growth areas that yield sustainable value creation for securities holders.

Our growth investments included launching Koodo Mobile, our new wireless basic brand and service, starting the implementation of a next generation wireless technology platform, continuing the roll-out of TELUS TV and implementing major data network contracts for corporate and public sector clients. Whilst in the near term these initiatives are dilutive to our earnings and cash flow, they are designed to create long-term value for shareholders.

Importantly, your company has maintained a transparent approach to these investments – assessing opportunities rigorously in relation to our core strategy, planning fastidiously and making considered decisions, all before communicating to stakeholders and implementing our plans effectively.

For example, our decision to invest in a high-speed packet access (HSPA) wireless network, to be launched by early 2010, essentially future-proofs our technology roadmap as we plan to move to a fourth generation (4G) network using long-term evolution (LTE) technology. As part of our comprehensive execution plan, we expanded on our existing network sharing agreement with Bell Canada and chose two leading equipment suppliers – Nokia Siemens Networks and Huawei Technologies – to ensure the build will be both timely and cost-effective. These decisions will provide our customers a full choice of wireless solutions.

Complementing this initiative was our purchase of 59 spectrum licences across Canada in the advanced wireless services (AWS) spectrum auction, which will enable us to provide wireless data

services to support the future growth of our business and facilitate our plans to move to LTE technology. The total cost of this spectrum for most participants, including TELUS, exceeded original expectations by two to three times.

On the Ontario and Quebec front, I am pleased to report that momentum keeps building as we win and implement multi-year large corporate and public sector contracts. Most recently, we were selected by the Government of Quebec to deliver and manage the province's next generation data network, the Réseau intégré de télécommunications multimédias. This seven-to-10-year contract is worth up to \$900 million.

We recognize that, whilst such investments advance our strategy, they impact our financial performance in the near term. To help offset the associated costs, in the latter part of 2008 we renewed our focus on our internal operational efficiency program, which has been in place since 2001. Certain of these productivity initiatives caused restructuring costs to triple from the prior year to \$59 million in 2008, and these costs are projected to remain at this higher level in 2009 as we drive productivity enhancements across our business.

Share price performance

TELUS has demonstrated leading and resilient share price performance over many years, however, we were clearly not immune to what transpired around us and in the global capital markets in 2008. Notwithstanding my deep disappointment at the TELUS common share price being down by 25 per cent for the year, your company outperformed the Toronto Stock Exchange (down 35 per cent) and the S&P 500 Index in the United States (down 38 per cent). Notably, we once again outperformed the global index of telecommunications companies, which was down 36 per cent for the year.

Looking back at our long-term performance on a total return basis, which includes share price appreciation and reinvested



During these challenging economic times, we managed our business responsibly whilst continuing to make decisive moves that advance our growth strategy, increase our future competitiveness and grow shareholder value over the long term.

Long-term total return performance for global incumbent telcos

Rank	Company	Total return*
1	TELUS	40%
2	BCE	10%
3	Singapore Tel	9%
4	Telefonica – Spain, Europe & Latin America	-8%
5	Portugal Tel	-8%
6	AT&T – U.S.	-15%
7	Verizon – U.S.	-18%
8	Swisscom	-23%
9	Telstra – Australia	-27%
10	Hellenic Tel – Greece	-32%
11	New Zealand Tel	-50%
12	Royal KPN – Netherlands	-71%
13	Telecom Italia	-72%
14	France Telecom	-75%
15	NTT Corp – Japan	-75%

*Nine-year cumulative share price change including reinvested dividends (December 31, 1999 to December 31, 2008). Source: Thomson Reuters.

dividends, TELUS has generated a 40 per cent return for shareholders in the last nine years. As the table illustrates, TELUS ranked first in creating shareholder value among global incumbent telcos.

Building on a position of financial strength

TELUS continues to realize its prudent long-term financial policies and is maintaining its targeted investment grade credit ratings. Moreover, TELUS has no long-term material debt maturing until 2011. As a result, we are in a good financial position to weather the credit market turmoil.

Our company's performance remains robust due to the significant national exposure to wireless and data growth. Whilst operating earnings were stable in 2008, revenue was up 6.4 per cent to \$9.7 billion, earnings per share (EPS) before tax adjustments increased one per cent to \$3.37, and return on equity was 15.8 per cent. I believe our company could have done appreciably better as we underperformed in certain areas, including missing our 2008 operating earnings and EPS targets.

TELUS continued to focus on balancing the interests of equity and debt holders and returning cash to shareholders in 2008. Your company has delivered five successive increases in your dividend in as many years, bringing the dividend in January 2009 to a record high of \$1.90 on an annualized basis. We also continued our normal course issuer bid program, purchasing almost seven million shares for \$280 million in 2008. Since December 2004, we have repurchased 60 million shares for \$2.8 billion. TELUS renewed this program to allow for the possibility of repurchasing up to eight million shares by December 2009.

As previously mentioned, our cash flow was impacted significantly in 2008 as we invested in advancing our growth strategy with the purchase of wireless spectrum and the start of our next generation wireless network build. Additionally, in 2009, we expect to pay more than a net \$320 million of

cash taxes. This is due to TELUS fully depleting the \$860 million of value from tax losses that were acquired with the purchase of Clearnet Communications in 2000.

In 2009, the TELUS team will focus on areas of challenge including competitive activity, continued technological substitution and declines in certain parts of our wireline and wireless businesses, which are impacting profitability margins. We are focusing on efficiency initiatives to improve profitability and free up cash flow, thereby allowing us to continue investing in the future and delivering new solutions to customers and long-term returns to shareholders.

Building on the strength of our strategy

TELUS has the right strategy – one that has been tested and proven since it was established almost nine years ago. This strategy, along with the six strategic imperatives that guide our efforts, are still as relevant today as when they were developed in 2000.

The following is a discussion of our key accomplishments as they relate to our strategic imperatives.

Focusing on data and wireless growth

TELUS experienced excellent growth in data and wireless services throughout 2008. In fact, wireless and data revenue represented 69 per cent of total revenue, compared to only 28 per cent in 2000. In particular, your company experienced industry-leading wireless data revenue growth of 55 per cent and record digital wireless subscriber additions of 588,000 during the year.

This performance is driven by our extensive selection of smartphones, innovative service offerings and, importantly, the successful launch of Koodo service. Koodo expands your company's ability to serve new customer segments, augmenting our wireless distribution, increasing client additions and

complementing our full-service TELUS brand in the marketplace. Notably, Koodo received the highest score for postpaid service providers in the 2008 Canadian wireless customer satisfaction study by J.D. Power and Associates.

Canada's relatively low wireless penetration, at 65 per cent, provides ample room for continued growth with an estimated six million new customers expected to join the industry during the next four years. Your company is well positioned to compete for and win a good portion of this business, even with certain new entrants expected to enter the market over the next two years. Our focus will be to continue providing service excellence to sustain the anticipated growth, whilst also ensuring we bring cool new devices and data-rich smartphone solutions to market.

Our technology path to 4G LTE wireless technology, using our HSPA network as an interim step, will continue to drive innovation for Canadians. Importantly, this will complement our powerful CDMA (code division multiple access) and iDEN (integrated digital enhanced network) wireless networks. It will also significantly strengthen our competitive position by giving clients more choice with the broadest selection of wireless services and applications while simultaneously providing TELUS with access to new roaming revenue.

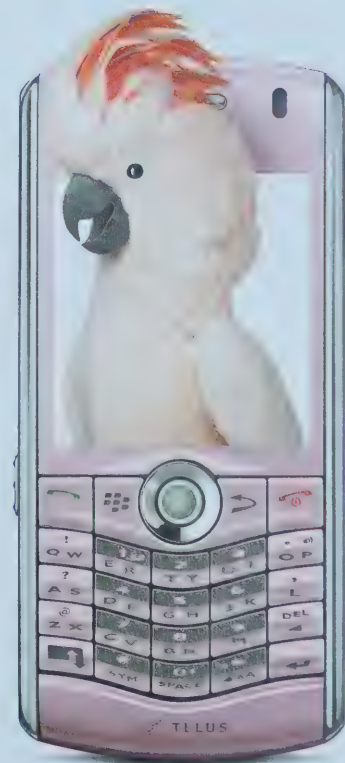
Partnering, acquiring and divesting

Our acquisition of Emergis in January 2008 is significantly advancing our leadership in healthcare, an area of strategic importance for TELUS and Canada.

During 2008, we carefully integrated 1,100 Emergis employees with the TELUS healthcare team to maintain the management and expertise of Emergis going forward. Your company has leveraged this partnership to pursue revenue opportunities in healthcare, winning a significant number of new client relationships in this strategic sector.

future-proofing our wireless technology path

We are building on our strength as we implement a new path to fourth generation wireless technology. This investment will enhance our competitive position in the Canadian wireless market and continue to deliver innovation for our clients.



Launching a new era in healthcare

TELUS is helping to transform healthcare with an innovative agenda that leverages technology to deliver critical health information to the point of patient care, shifting the focus from the remediation to the prevention of disease.



Signifying the seriousness of our commitment to help transform healthcare in Canada, in November, we launched TELUS Health Solutions and announced plans to invest \$100 million over three years in patient-critical applications such as electronic health records. TELUS is making a difference in Canadian healthcare with applications and technology infrastructure that help citizens across Canada track, access and manage critical health information in a more timely and cost-effective fashion. Notably, we earned recognition as the 2008 Health Company of the Year by the Information Technology Association of Canada.

In 2008, we also signed an enhanced network sharing agreement with Bell Canada as part of our investment in the HSPA wireless network that is giving us the ability to offer the widest national coverage in the shortest time possible. The agreement reduces our required capital expenditures and increases the speed of the build, with the HSPA network set to launch by early 2010.

Finally, during 2008, TELUS Ventures successfully concluded its investments in Hostopia Inc., Brix Inc. and Atrius Inc., resulting in more than \$10 million in proceeds. TELUS Ventures focuses on bringing innovative technologies and solutions into the company. We are continuing to make equity investments in high-tech companies that have the capabilities TELUS is desirous of implementing, and have the potential for profitable returns.

Building national capabilities

Strategic initiatives such as our new wireless network and Koodo service are reinforcing our national competitive position. Additionally, in the wireline business market, we continue to focus on and create momentum in our four key industry verticals – the public sector, healthcare, financial services and energy.

Throughout 2008, we continued building on the strength of our leadership position in winning and executing large managed data networking solutions. For example, our contract with the Government of Ontario has been fully implemented and the City of Montreal contract implementation is underway. Also, on the wireless side, we have completed the multi-year roll-out of a major contract with the Government of Canada, making TELUS the prime supplier of wireless phones for government employees.

Our implementation track record and the accompanying positive references continue to lead to success. Late in 2008, we were awarded a new seven-to-10-year contract with the Government of Quebec, worth up to \$900 million, to deliver and manage the province's next generation data network. This infrastructure will provide data connections to some 160 ministries and agencies and 350 health institutions across the province.

Providing integrated solutions

TELUS advanced its Future Friendly Home strategy in 2008, expanding your company's broadband infrastructure and bringing a wider range of services to more customers. For example, TELUS TV gained increased traction in our incumbent markets of British Columbia, Alberta and Quebec, particularly when marketed with local, long distance and high-speed Internet services. TELUS is capitalizing on this momentum by expanding its broadband network to more households in its traditional territories.

TELUS continues to expand its broad suite of call centre and business process outsourcing services for the benefit of a large roster of Canadian, U.S. and international clients. These services are reliant on TELUS International's growing contact centre outsourcing operations that are located in the Philippines, Latin America and the U.S. Recently, bilingual Spanish/English language capabilities have been added at call centre sites in three Central American countries and at a new call centre being

built in Clark County, Nevada. These new sites augment the company's capability to offer clients bilingual call centre support from diverse locations.

On the business front, we introduced a wide range of new solutions including TELUS Field Pack for Energy Services, to help keep field workers safe and connected, and three new global positioning system (GPS) solutions – TELUS Asset Tracker, TELUS Resource Tracker and TELUS Track and Dispatch – that are ideal for businesses with mobile workers. We also introduced TELUS Visual Voice Mail, the first national deployment of a service that enables customers to read their voice mail as e-mail.

Investing in internal capabilities

We successfully completed the second large implementation of a billing and client care system in July, with the conversion of more than one million wireline consumers in British Columbia. Accordingly, we became the first telecom company in North America to consolidate legacy ordering, provisioning, customer management and billing software onto a single advanced platform. For the first time, approximately 2.5 million customers in Alberta and B.C. are on the same system, enabling front-line agents to better manage their services from a single application.

We continue to do well with innovative employee initiatives, including new recognition, training and career development programs designed to help us attract and retain the best talent in the global communications industry. In 2008, team member engagement at TELUS increased significantly by 500 basis points. Notably, this past year, TELUS was cited as one of Canada's Human Capital Leaders by The Beacon Group. In its survey of more than 4,000 business leaders, executives consistently cited TELUS for excellence in the overall leadership of its people. Additionally, SkillSoft, a global leader in the provision of online learning solutions, honoured TELUS with its Industry Achievement Award.



TELUS has the right strategy – one that has been tested and proven since it was established almost nine years ago. This strategy, along with the six strategic imperatives that guide our efforts, are still as relevant today as when they were developed in 2000.



Our company is strongly positioned
for ongoing success, despite
challenging economic times.
We have a proven strategy,
a dedicated team and the financial
strength to fund investments
for future growth.

Realizing internal efficiencies is an ongoing reality of our business. In late 2008 and into 2009, TELUS augmented its operational efficiency program with a series of major initiatives including:

- Streamlining our technology, network operations and IT business units into two integrated teams, enabling us to realize efficiencies in technology deployment, whilst simplifying operational support systems
- Lowering external spending by centralizing procurement and vendor management
- Reducing staffing levels and associated costs by optimizing our layers of management and spans of control, freezing management compensation and containing staff benefit costs
- Leveraging business process outsourcing to drive cost efficiencies
- Optimizing our product portfolio by decommissioning uneconomic services to simplify our go-to-market value propositions.

Going to market as one team, under a common brand

The TELUS brand has clearly grown in popularity and value over the years. The public instantly recognizes our advertising with its fresh white backgrounds, TELUS colours and creative use of nature and critters. This provides more time to communicate our customer value proposition, thereby increasing the effectiveness and efficiency of our marketing.

Indeed, our brand garners significant third-party recognition. In October, the TELUS brand was named as one of Strategy Magazine's 2008 Brands of the Year. These brands stand out in their sectors for devising ingenious and entertaining ways to reach their audiences, and have been rewarded by strong consumer response. Notably, your company's brand was determined to be worth more than \$1.8 billion by Brand Finance.

Building on our commitment to social responsibility

The TELUS team is committed to our philosophy of we give where we live. Since 2000, TELUS, our team members and retirees have contributed more than \$135 million to charitable and not-for-profit organizations and volunteered more than 2.6 million hours. Even during these current uncertain times, I am proud that team members and retirees increased their giving by 23 per cent for 2009, which is matched by TELUS.

Furthering our belief that corporate philanthropy must be owned and delivered locally, we have announced the launch of our ninth TELUS Community Board in Atlantic Canada, led by General Rick Hillier, which will benefit local charitable organizations in 2009 and beyond. Consisting of distinguished community members and senior TELUS leaders, our community boards provide local insight, valuable knowledge and inspiration for communities across Canada.

In 2008, we were pleased to join the Juvenile Diabetes Research Foundation (JDRF) in the first annual TELUS Walk to Cure Diabetes, the start of a three-year partnership. The 2008 Walk raised more than \$8 million to help find a cure for this devastating disease and its complications. Our partnership with JDRF demonstrates a new level of corporate leadership – helping to transform research into treatments and moving us closer to finding a cure.

We also continued to demonstrate our commitment to environmentally friendly initiatives. In May, more than 8,600 team members, retirees, friends and families participated in the third annual TELUS Day of Service, volunteering their time at more than 200 activities that focused on caring for the environment and the well-being of citizens.

Moreover, new TELUS facilities are being designed with the environment in mind. We are adhering to the leadership in energy and environmental design (LEED) standards, a North American standard of excellence for the design and construction of environmentally sustainable buildings.

For example, TELUS buildings in Ottawa, Toronto and Quebec City are designed to meet LEED silver standards.

TELUS' commitment to achieving excellence in corporate social responsibility has gained repeated third-party recognition. For the eighth consecutive year, your company was listed on the Dow Jones Sustainability World Index, recognizing our leadership and stewardship on economic, environmental and social fronts. Notably, for the first time, we were named to the 2009 Global 100 Most Sustainable Corporations list, one of only five Canadian companies that qualified.

Meeting future challenges

TELUS continues to operate in a rapidly changing environment that includes increasing competitive intensity from cable-TV companies and national telecommunications providers. We are also operating during a recession, which is challenging our business despite telecommunications being reasonably resilient to economic downturns.

A key challenge is managing the complexity of our industry and our company, which includes business areas exhibiting strong growth and areas that are maturing or declining such as long distance and residential local telephone service. This means we need to redeploy resources and reduce costs to sustain profitability, and free up resources to invest in growth opportunities. Importantly, as we increase our focus on operational efficiency measures, we must also strive to enhance customer service.

Helping us address these challenges and remain responsive to the changing competitive and economic landscape are our three corporate priorities for 2009, which are shown in the sidebar.

2009 corporate priorities

Every year since 2000, your company has established corporate priorities to advance our national growth strategy and guide us in fulfilling our strategic imperatives.

For 2009, our corporate priorities are to:

- Execute on TELUS' broadband strategy, leveraging our investments in leading wireline and wireless networks to deliver winning solutions for our customers
- Increase the efficiency of our operations to improve TELUS' cost structure and economic performance
- Outpace the competition and earn the patronage of clients through an engaged TELUS team.



Building on strength

Your company is strongly positioned for ongoing success, despite the challenging economic times. We have a proven strategy, a dedicated team and the financial strength to fund investments for future growth. We also have a track record for achieving our publicly stated financial targets. Since 2001, your company has met or exceeded 83 per cent of our 40 consolidated financial targets, including two of four in 2008, a most challenging year.

The TELUS team is entering 2009 with a relentless focus on advancing our strategy and a keen dedication to upholding our social responsibilities, predicated on achieving ongoing business success. Your company aims to remain at the forefront of

our global peers and create long-term value for our investors, team members, customers and the communities we serve. We look forward to building on our strength in 2009 and beyond.

Thank you for your continued support.

A handwritten signature in dark ink, reading "Darren". The signature is fluid and stylized, with a large, looping 'D' and a trailing flourish.

Darren Entwistle
Member of the TELUS Team
President and Chief Executive Officer
February 20, 2009

building on our communities

At TELUS, our community investment philosophy – we give where we live – is put into action time and again as we strive to make a significant and lasting difference in the communities where we live, work and serve.

Our efforts are clearly focused on supporting three areas – arts and culture, education and sport, and health and well-being in our environment – in ways that benefit youth and showcase technology. We are building on...

...our local commitment

The cornerstone of our national philanthropic commitment is our innovative community board approach, which brings together community leaders and TELUS team members to make grass-roots funding decisions for the betterment of life in the local area. Since 2005, these boards have donated \$16.9 million to charities and supported 1,205 community projects.

With the launch of the TELUS Atlantic Canada Community Board, we now have nine boards across Canada, including Vancouver, Victoria, Edmonton, Calgary, Toronto, Ottawa, Montreal and Rimouski.

...our support for kids with diabetes

The TELUS Walk to Cure Diabetes took place in the summer of 2008 in more than 60 communities across the country, raising money for the Juvenile Diabetes Research Foundation (JDRF). More than 3,000 team members, retirees, family and friends took part and raised in excess of \$525,000, which TELUS matched dollar for dollar. In total, 45,000 people participated in the walks, raising more than \$8 million.

This was the start of a three-year partnership between TELUS and JDRF, underscoring the commitment TELUS has made to funding research to help the more than 240,000 Canadians affected by Type 1 diabetes.

...our collective strength

On May 31, more than 8,600 team members, retirees, family and friends came together for TELUS Day of Service, collectively volunteering 26,000 hours. They took part in more than 200 volunteer activities, many with a focus on the environment, through 137 organizations across Canada, making a tremendous impact on the health and well-being of local communities.

On this one special day, team members were busy:

- Sorting and packing 67,309 kilograms of food
- Serving 1,413 meals to the homeless and those in need
- Planting 7,873 trees and shrubs in parks and gardens
- Collecting 432 bags of garbage from river valleys, parks, fields and roadways.

In October, more than 500 team members from TELUS International Philippines volunteered in Manila with Gavad Kalinga (GK), an organization similar to Habitat for Humanity, to build homes in a new village called the TELUS GK Village. This effort, which began in 2007, will provide 71 homes in the village to house 107 families. To date, 20 homes have been built and another 10 are underway.

...the strength of our team

Whether offering time, resources or money, the TELUS team has a history of helping those in need of support and building stronger communities. TELUS continues to be an Imagine Caring Company, a designation of Imagine Canada affirming that we donate more than one per cent of our pre-tax profits to charitable organizations each year.

Through the annual TELUS Employee Charitable Giving program, team members, retirees, board members and retail dealers make donations to Canadian charities they are passionate about, which TELUS then matches dollar for dollar. Based on the latest campaign, and despite the difficult economic times, TELUS and team members will donate \$7.1 million to more than 2,900 Canadian charities in 2009.

The annual TELUS Dollars for Doers program recognizes team members and retirees for their volunteer efforts, as either individuals or teams, with a donation to their charity of choice. In 2008, TELUS donated \$707,000 to Canadian charities in recognition of 2,540 team members and retirees who volunteered more than 50 hours of their personal time. Collectively, our team members and retirees volunteered 453,000 hours in 2008.

building on our legacy of giving

The actions of the TELUS team are making a meaningful difference in our communities. Since 2000, TELUS, our team members and retirees have contributed more than \$135 million to charitable and not-for-profit organizations across Canada and volunteered more than 2.6 million hours of service.

...the dedication of our ambassadors

The TELUS Community Ambassadors program expanded in Ontario and Quebec this year, with new clubs in Rimouski, Montreal and Toronto West. We now have 20 clubs that enable our retirees and team members to deliver numerous community programs and events across Canada.

In 2008, more than 63,000 care items were created and distributed to people in need including backpacks filled with school supplies, comfort kits containing personal hygiene items, and refurbished computers for schools.

...our social responsibility

At TELUS, we strive to be a leader in corporate social responsibility. Using a triple bottom line approach, we balance economic growth with a steadfast dedication to environmental and social goals.

Our long-term commitment continues to attract international recognition. In 2008, for the eighth consecutive year, TELUS was listed on the Dow Jones Sustainability World Index. This index recognizes companies that demonstrate excellence from an economic, environmental and social perspective.



Visit telus.com/csr for more information on our commitment to environmental and social responsibility.

Charitable organizations can apply for funding at telus.com/community.

TELUS is the only North American telecommunications company and one of only 10 Canadian companies on the World Index.

TELUS is also a member of the FTSE4Good Index, which gives investors information on companies that meet globally recognized corporate responsibility standards.



building on understanding



What is TELUS' rationale and approach towards operational efficiency in the current environment?



Due to the nature of our industry, operational efficiency must be a way of life for TELUS and has been since 2001. As a result of technological substitution (e.g. wireless devices replacing home phones) and competitive pressures, some parts of our business are in decline – the local and long distance business

and legacy data products are examples. This causes downward pressure on revenues and profit margins. To compensate, we must curtail costs and redeploy resources to growth areas within the company.

In addition, we must continue to maintain healthy profits and cash flow, to fund our core strategic growth initiatives that sustain our future performance. While many of these investments have negative cash flow in the short term, they are designed to create long-term value for shareholders. These include the wireline broadband build supporting the sale of high-speed Internet and TELUS TV services, and our next generation wireless network and technology evolution to fourth generation (4G).

Finally, in the current economic and capital market environment, the company is wise to ensure it is efficiently run so as to be able to absorb pressures from these challenging conditions. All this leads us to the simple fact that we must maintain profit margins and fund our strategic growth initiatives, in part, through the internal efficiencies that are available to us. Notably, this is one of our key corporate priorities.

In the second half of 2008 and into 2009, we have intensified our operational efficiency program through a series of initiatives. We are focusing on a number of key areas in 2009 including streamlining and integrating certain business units, centralizing our procurement and vendor management activities, and



containing compensation and benefits-based costs. We are also reducing discretionary expenses including contractor and consulting costs.

Reflecting the increased focus on efficiency improvements, we tripled our restructuring costs to \$59 million in 2008 and have a target of \$50 to \$75 million for 2009. In one to two years, these investments in restructuring are expected to contribute positively to earnings.

For 2009, the TELUS team is focused on achieving this corporate priority to help advance our national growth strategy in a responsible manner so as to ensure a strong future for all our stakeholders.



Robert McFarlane
Executive Vice-President and Chief Financial Officer



What are the benefits of your decision to build an HSPA wireless network?



The question is best answered by discussing TELUS' planned evolution to 4G wireless technology. Current 4G technologies are based on orthogonal frequency division multiplexing

(OFDM) as the underlying modulation scheme, which is particularly well suited to data transmission. As many of our investors know, TELUS takes great care in evaluating technologies, looking at not only the technology but also the resulting ecosystem that will emerge to support devices and services.

Thus, after an exhaustive strategic and financial analysis, TELUS chose long-term evolution (LTE) for our 4G network over WiMax and ultra mobile broadband (UMB). We believe LTE is the right decision as WiMax will likely be more of a niche network in nature and UMB, the CDMA2000 4G path, has since been cancelled.

Having made our 4G choice, TELUS considered the possible options on the path towards LTE and selected an interim step – to build a national next generation high-speed packet access (HSPA) wireless network with an expected launch of service by early 2010. This step is to facilitate an optimal transition to LTE technology as it becomes available in several years. Overall, we believe this decision strengthens TELUS' competitive position in the Canadian wireless market.

For our customers, the new network has many advantages. We expect it to augment our existing wireless services with:

- A larger selection of innovative new devices and applications unmatched by any competitor in Canada
- Faster next generation data speeds with robust network reliability
- Enhanced international roaming that will improve our customers' service experience while travelling.

For TELUS, the new network is expected to offer cost efficiencies through access to global economies of scale in network equipment and handsets, and new revenue opportunities as we address additional market segments and capture incremental revenues from international roaming.

Importantly, TELUS is sharing the new network build by enhancing and extending an existing relationship with Bell Canada to lower the capital and operating costs, improve the economics, accelerate the deployment of the network and maximize the geographic coverage. We have also chosen two suppliers,

Nokia Siemens Networks and Huawei Technologies, and have assured ourselves of very competitive pricing.

While HSPA represents an exciting evolution in our multi-network strategy, we will continue to operate our CDMA and iDEN networks as we transition to LTE technology in the longer term. This approach is aimed at providing clients with the widest choice of wireless solutions that will best meet their needs, and enhances our ability to compete for new customers.

Over the years, we have evolved our current networks through several well-executed and capital-efficient technology upgrades, delivering enhanced customer services and driving innovation in the industry. With this newest initiative, we are on track to do so once again.



Eros Spadotto
Executive Vice-President, Technology Strategy



How is TELUS responding to increased competition in order to increase market share in high-speed Internet and TELUS TV?



TELUS is laying the foundation for future success with continued expansion and enhancements to our broadband network across our largest markets of Edmonton, Calgary and Vancouver to provide even higher Internet speeds and the capability for more services.

We have made significant investments in developing a robust and scalable IP TV service in Alberta, B.C. and Eastern Quebec over the past several years. During this time, our focus has been on maximizing the quality of the client experience, supported by a TELUS team that is passionate about continuous improvement.

In 2008, TELUS delivered significant enhancements to TELUS TV including:

- Improvements to set-top box middleware and the client experience
- A notable expansion of high-definition (HD) availability to 75% of our TV-eligible households
- Continued HD channel line-up growth
- The launch of personal video recorder (PVR) service in December.

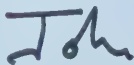
Based on these efforts, we gained momentum with higher customer additions in Edmonton and Calgary where our TELUS TV deployment and marketing efforts were largely focused during 2008. By the end of 2010, we look forward to significantly expanding the number of households eligible for our TV services.

While TELUS clearly benefits from competing in one of the most successfully penetrated high-speed Internet markets in North America, there is a heightened necessity to effectively use bundles to grow market share at this stage.

TELUS' bundling strategy centres on our Future Friendly Home suite of services. Combining local and long distance, high-speed Internet and entertainment services, we are increasingly offering bundled products and services to achieve competitive differentiation that provides our customers with more freedom, flexibility and choice. TELUS' Future Friendly Home strategy positions us to grow wallet share with consumers, while enhancing retention and loyalty through multiple service offerings.

To realize this opportunity, TELUS is continuing the expansion of fibre to the node (FTTN) technologies to support the sale of a full suite of Future Friendly Home services in Vancouver, and most cities within our traditional markets, by the end of 2010. This significant investment will enable both material geographic expansion and the deployment of VDSL2 technology to support enhanced connectivity speeds and higher bandwidth entertainment applications such as high-definition TELUS TV. In addition, there is considerable effort underway to continuously improve the quality of our clients' experience and reduce support costs. The implementation of our new order entry, billing and customer care system, completed in 2007 and 2008 in Alberta and B.C., is key to this effort.

With this foundation in place, the next two years will see a focus on delivering a number of client service enhancements leveraged across a much larger base of homes capable of accessing all our Future Friendly Home services. This will leverage the considerable marketing and operational expertise of the TELUS team, ensuring we deliver a superior competitive value proposition to clients in Alberta, B.C. and Eastern Quebec.



John Watson
Executive Vice-President and President,
TELUS Consumer Solutions



Given TELUS' recent successes in Central Canada, how do you plan to sustain the momentum?



The TELUS team in Ontario and Quebec continues to make good progress in Central Canada. Our investments in network connectivity, IP applications and managed services have been opening new

opportunities in the Central Canadian business market for our integrated IP-based solutions. TELUS is seizing this opportunity by targeting customers in four key industry verticals (the public sector, healthcare, financial services and energy) as well as focusing on the underserved emerging and medium-sized business segments. While the strategy entails initial cash outflows and then building revenues and profit, these multi-year contracts are all geared to driving an attractive return on investment over time.

Our sales success is not just about technology. It is also based on a consultative sales and service approach that focuses on building strong client relationships and providing thought leadership. We aim to create loyalty and trust by differentiating ourselves, by first thoroughly understanding our clients' business and their needs and only then delivering innovative solutions.

The addressable annual market for healthcare, including public and private spending and business process outsourcing, is approximately \$3.5 billion and is estimated to be growing at 7% annually. TELUS acquired Emergis in early 2008 to complement our existing healthcare technology solutions. Later in the year, we combined all of TELUS' healthcare solution assets under the newly launched TELUS Health Solutions brand. TELUS has committed \$100 million over three years to invest in healthcare solutions, ranging from electronic health records management and health insurance processing to pharmacy management and home care. TELUS' Integrated Bedside Terminal solution exemplifies the new world of IP-enabled healthcare solutions –

it delivers both entertainment for patients and access to medical information for healthcare workers. This solution accesses information across both a hospital's local network and TELUS' wide area networks. In fact, the Information Technology Association of Canada named TELUS the 2008 Health Company of the Year for demonstrating excellence in the Canadian health informatics industry.

Our momentum in healthcare is being driven by the escalating needs of Canadians and associated costs that governments are trying to address with more efficient use of healthcare information. Notably, the January 2009 federal government budget earmarked \$500 million for Canada Health Infoway, a program to assist healthcare agencies achieve the goal of having electronic health records for 50% of Canadians by 2010. TELUS is well positioned, with multiple health IT platforms, systems and solutions, to participate in this evolution of healthcare delivery in Canada.

TELUS is pursuing the financial services industry with a similar focus on business value, for example by helping financial services organizations use wired and wireless technology to deliver a better experience for their customers. One such solution is the TELUS Mobile Banking system, which provides bank customers with access to secure information and account management using their mobile devices, via text messaging or mobile web services.

In the public sector, TELUS has won large multi-year contracts by focusing on innovative IP-based networks that provide a foundation for an entire generation of new services. Examples of significant managed data contract wins in the public sector are the Government of Ontario, Department of National Defence and, most recently, the Government of Quebec.

Another important element to maintain momentum is to ensure we build on our implementation track record, which creates positive referrals and ongoing contract bid success. While most implementations go smoothly, we are always striving for continuous improvement. In 2008, we consolidated three business units into two to make deployments of technology more

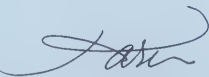
effective and we increased our focus on project implementation processes to identify learnings that can be applied across other such projects.

In the small and medium-sized business space, TELUS has countered growing competition by continuing to tailor our solutions and services to the unique needs of this critical segment, and by leveraging our market leading suite of smart-phones, mobile applications and converged wireless and wireline solutions.

In short, the TELUS team is focused on developing and successfully delivering differentiated customer solutions. Our future success and growth will build upon the strength of our Ontario and Quebec operations. We continue to look ahead to our future – making sizeable investments to evolve our technology and thought leadership – to build lasting relationships with our clients that will continue to support their success and TELUS' long-term profitable growth.



Joe Natale
Executive Vice-President and President,
TELUS Business Solutions



Karen Radford
Executive Vice-President and President,
TELUS Québec and Partner Solutions



building on trust

our board of directors

R.H. (Dick) Auchinleck

Residence: Calgary, Alberta
 Principal occupation: Presiding
 Director, ConocoPhillips Inc.
 Director since: 2003
 Education: Bachelor of Applied
 Science (Chemical Engineering)
 University of British Columbia
 Boards: Enbridge
 Commercial Trust and EPCOR
 Centre for the Performing Arts
 Pension; and Chair, Corporate
 Governance
 Shareholdings: 35,722

A. Charles Baillie

Residence: Toronto, Ontario
 Principal occupation: Chair,
 Alberta Investment Management
 Corporation
 Director since: 2003
 Education: Bachelor of Arts,
 Honours (Political Science &
 Economics), Trinity College,
 University of Toronto; MBA,
 Harvard Business School;
 and Honorary Doctorate
 of Laws, Queen's University
 Other Boards and affiliations:
 Canadian National Railway
 Company and George Weston
 Limited; President of Art Gallery
 of Ontario; and Officer of Order
 of Canada
 TELUS Committees: Pension;
 and Chair, Human Resources
 and Compensation
 TELUS shareholdings: 93,221

Micheline Bouchard

Residence: Montreal, Quebec
 Principal occupation:
 Corporate Director
 Director since: 2004
 Education: Bachelor of Applied
 Science (Engineering Physics)
 and Master of Applied Science
 (Electrical Engineering), École
 Polytechnique; and Honorary
 Doctorates from Université de
 Montréal (HEC), University of
 Waterloo, University of Ottawa,
 Ryerson Polytechnic University,
 and McMaster University
 Other Boards and affiliations:
 Citadel Group of Funds, Harry
 Winston Diamond Corporation,
 and Home Capital/Home Trust;
 Certified Member of the Institute
 of Corporate Directors; and
 Member of Order of Canada
 TELUS Committee: Audit
 TELUS shareholdings: 20,211

R. John Butler, Q.C.

Residence: Edmonton, Alberta
 Principal occupation:
 Counsel, Bryan & Company
 Director since: 1995
 Education: Bachelor of Arts
 and Bachelor of Law, University
 of Alberta
 Other Boards: Trans Global
 Insurance Company and Trans
 Global Life Insurance Company;
 and Trustee, Liquor Stores
 Income Fund
 TELUS Committees: Corporate
 Governance, and Human
 Resources and Compensation
 TELUS shareholdings: 25,402
 TELUS options: 5,750

Brian A. Canfield

Residence: Point Roberts,
 Washington
 Principal occupation:
 Chair, TELUS Corporation
 Director since: 1989
 Education: Honorary Doctorate
 in Technology, British Columbia
 Institute of Technology
 Other Boards and affiliations:
 Suncor Energy Inc.; and Member
 of Order of Canada and Order
 of British Columbia
 TELUS Committee: Pension
 TELUS shareholdings: 56,083
 TELUS options: 79,400

Pierre Ducros

Residence: Montreal, Quebec
 Principal occupation: President,
 P. Ducros & Associés Inc.
 Director since: 2005
 Education: Bachelor of Arts,
 Université de Paris at Collège
 Stanislas, Montréal; Royal
 Military College of Canada;
 and Bachelor of Engineering
 (Communications), McGill
 University
 Other Boards and affiliations:
 Canadian Institute for Advanced
 Research, Manulife Financial
 Corporation, and RONA Inc.;
 and Member of Order of Canada
 and Officer of Order of Belgium
 TELUS Committee: Audit
 TELUS shareholdings: 15,839





Visit telus.com/annualreport for more background information on our Board of Directors.

R.E.T. (Rusty) Goepel

Residence: Vancouver, British Columbia
Principal occupation: Senior Vice-President, Raymond James Financial Ltd.
Director since: 2004
Education: Bachelor of Commerce, University of British Columbia
Other Boards: Amerigo Resources Ltd., Auto Canada Income Fund, Baytex Energy Trust, Spur Ventures Inc., Vancouver 2010 Olympic Organizing Committee, and Vancouver Airport Authority; Pension Advisory Committee of the Canadian Olympic Association; and Chairman of Yellow Point Equity Partners
TELUS Committee: Audit
TELUS shareholdings: 32,529

John S. Lacey

Residence: Thornhill, Ontario
Principal occupation: Chairman, Advisory Board of Tricap
Director since: 2000
Education: Program for Management Development, Harvard Business School
Other Boards: Ainsworth Lumber Co. Ltd. and Loblaw Companies Limited; and Chairman of Doncaster Consolidated Ltd.
TELUS Committees: Corporate Governance, and Human Resources and Compensation
TELUS shareholdings: 34,544
TELUS options: 2,700

Brian F. MacNeill

Residence: Calgary, Alberta
Principal occupation: Chairman, Petro-Canada
Director since: 2001
Education: Bachelor of Commerce, Montana State University; Certified Public Accountant (California); and Chartered Accountant (Canada)
Other Boards and affiliations: TD Bank Financial Group and West Fraser Timber Co. Ltd.; and Member of Order of Canada
TELUS Committee: Chair, Audit
TELUS shareholdings: 46,217
TELUS options: 2,700

Ronald P. Triffo

Residence: Edmonton, Alberta
Principal occupation: Chairman, Stantec Inc.
Director since: 1995
Education: Bachelor of Science (Civil Engineering), University of Manitoba; and Master of Science (Engineering), University of Illinois
Other Boards: Alberta's Promise, Board of Governors of Junior Achievement of Northern Alberta, and Advisory Council of the Faculty of Medicine and Dentistry at University of Alberta; Chairman of Alberta Ingenuity Fund; and Past Chair of ATB Financial
TELUS Committee: Audit
TELUS shareholdings: 43,974
TELUS options: 6,800

Donald Woodley

Residence: Mono Township, Ontario
Principal occupation: Corporate Director
Director since: 1998
Education: Bachelor of Commerce, University of Saskatchewan; and MBA, Richard Ivey School of Business, University of Western Ontario
Other Boards: Canada Post Corporation, Genuium Corporation, Steam Whistle Brewing Inc., and SickKids Hospital Foundation
TELUS Committees: Corporate Governance; and Chair, Pension
TELUS shareholdings: 262,697
TELUS options: 5,750

Darren Entwistle

Residence: Vancouver, British Columbia
Principal occupation: President and Chief Executive Officer, TELUS Corporation
Director since: 2000
Education: Bachelor of Economics (Honours), Concordia University; MBA (Finance), McGill University; and Diploma (Network Engineering), University of Toronto
Other Boards: Canadian Council of Chief Executives and McGill University
TELUS shareholdings: 368,771
TELUS options: 262,697

TELUS shareholdings represent the total common and non-voting shares and deferred stock units (restricted stock units for Darren Entwistle) held as at December 31, 2008 for all directors.

TELUS options represent the total options for common or non-voting shares held as at December 31, 2008



building on leadership

our executive team

how we are organized



Darren Entwistle
President and
Chief Executive Officer

Biography can be found
on page 25.

Josh Blair
Executive Vice-President,
Human Resources
Location: Vancouver,
British Columbia
Joined TELUS: 1995
Executive: 2007
Education: Bachelor of
Engineering (Electrical –
Distinction), University of
Victoria; and Executive Program,
Queen's School of Business
Boards and committees
Co-Vice-Chair of TELUS
Vancouver Community Board
and Chair of its Education
Sub-committee
TELUS shareholdings: 20,931
TELUS options: 47,215

Robert McFarlane
Executive Vice-President
and Chief Financial Officer
Location: Toronto, Ontario
British Columbia
Joined TELUS: 2000
(Clearnet: 1994)
Executive: 2000
Education: Bachelor of
Commerce (Honours), Queen's
University; and MBA, University
of Western Ontario
Boards and committees
Royal and SunAlliance Insurance
Company of Canada and Chair
of its Audit Committee; Vice-
Chair of Business Council of
British Columbia and member of
its Economic Policy Committee;
Vancouver College Board;
and Vancouver Advisory Board
of The Salvation Army –
B.C. Division
TELUS shareholdings: 142,147
TELUS options: 277,099

Joe Natale
Executive Vice-President and
President, Business Solutions
Location: Toronto, Ontario
Joined TELUS: 2003
Executive: 2003
Education: Bachelor of Applied
Science (Electrical Engineering),
University of Waterloo
Boards and committees:
Royal Conservatory of Music,
Livingston International Inc.
and Soulpepper Theatre
TELUS shareholdings: 49,340
TELUS options: 184,520

TELUS shareholdings represent the total common and non-voting shares
and restricted stock units held as at December 31, 2008

TELUS options represent the total options for common or non-voting shares
held as at December 31, 2008





Visit telus.com/annualreport for more background information on our executive team.

Karen Radford

Executive Vice-President and President, TELUS Québec and TELUS Partner Solutions

Location: Montreal, Quebec

Joined TELUS: 1998

Executive: 2004

Education: Bachelor of Science, Mount Allison University; and MBA, Dalhousie University

Boards and committees: Alberta Children's Hospital Foundation Board of Trustees, Loblaw Companies Limited, Fondation du maire de Montréal pour la jeunesse and TELUS Montreal Community Board; National Advisor to Youth in Motion and Women in Motion; and President and co-founder of the Women's Leadership Foundation

TELUS shareholdings: 37,671

TELUS options: 110,240

Kevin Salvadori

Executive Vice-President, Business Transformation and Technology Operations

Location: Vancouver, British Columbia

Joined TELUS: 2000

(Clearnet: 1995)

Education: Bachelor of Applied Science (Systems Design Engineering), University of Waterloo

Boards and committees: BC Technology Industries Association and Teradici Corporation

TELUS shareholdings: 78,126

TELUS options: 255,072

Eros Spadotto

Executive Vice-President, Technology Strategy

Location: Toronto, Ontario

Joined TELUS: 2000

(Clearnet: 1995)

Executive: 2005

Education: Bachelor of Applied Science (Electrical Engineering), University of Windsor; and MBA, Richard Ivey School of Business

TELUS shareholdings: 45,934

TELUS options: 216,658

John Watson

Executive Vice-President and President, Consumer Solutions

Location: Toronto, Ontario

Joined TELUS: 2000

(Clearnet: 1996)

Executive: 2005

Education: Bachelor of Business Administration, York University; and MBA, York University

Boards and committees: EnStream LP and Canadian Wireless Telecommunications Association

TELUS shareholdings: 41,718

TELUS options: 164,104

Janet Yale

Executive Vice-President and National Chair, TELUS Community Boards

Location: Ottawa, Ontario

Joined TELUS: 2003

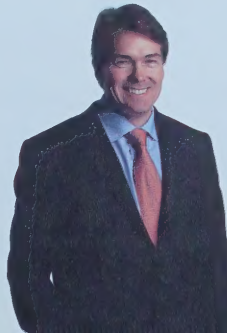
Executive: 2003

Education: Bachelor of Arts, McGill University; Master of Economics, University of Toronto; and Bachelor of Law, University of Toronto

Boards and committees: Business for the Arts, Canadian Film Centre, Great Canadian Theatre Company, International Institute of Communications, Canadian Chamber of Commerce, Institute of Corporate Directors and Ottawa Regional Cancer Foundation; and Chair of the TELUS Ottawa Community Board, the Leadership Table on Homelessness with the United Way and the National Arts Centre Gala

TELUS shareholdings: 20,935

TELUS options: 84,700



investor information

Stock exchanges and TELUS trading symbols

Toronto Stock Exchange (TSX)

common shares T
non-voting shares T.A

New York Stock Exchange (NYSE)

non-voting shares TU

Transfer agent and registrar

Computershare Trust Company of Canada

phone 1-800-558-0046 (toll-free within North America)
or +1 (514) 982-7129 (outside North America)
e-mail telus@computershare.com
website computershare.com

TELUS Investor Relations

John Wheeler
Vice-President, Investor Relations
phone 1-800-667-4871 (toll-free within North America)
or +1 (604) 643-4113 (outside North America)
e-mail ir@telus.com
website telus.com/investors

TELUS general information

British Columbia (604) 432-2151
Alberta (403) 530-4200
Ontario (416) 507-7400
Quebec (514) 788-8050

Annual meeting of shareholders

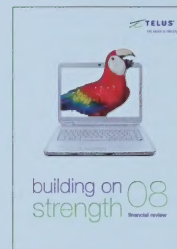
Thursday, May 7, 2009
11 a.m. (Eastern Time)
National Gallery of Canada
380 Sussex Drive
Ottawa, Ontario

2009 expected dividend¹ and earnings dates

	Ex-dividend dates ²	Dividend record dates	Dividend payment dates	Earnings release dates
Quarter 1	March 9	March 11	April 1	May 7
Quarter 2	June 8	June 10	July 2	August 7
Quarter 3	September 8	September 10	October 1	November 6
Quarter 4	December 9	December 11	January 4, 2010	February 12, 2010

¹ Dividends are subject to Board of Directors' approval.

² Shares purchased on this date forward will not be entitled to the dividend payable on the corresponding dividend payment date.



Building on strength ... available online

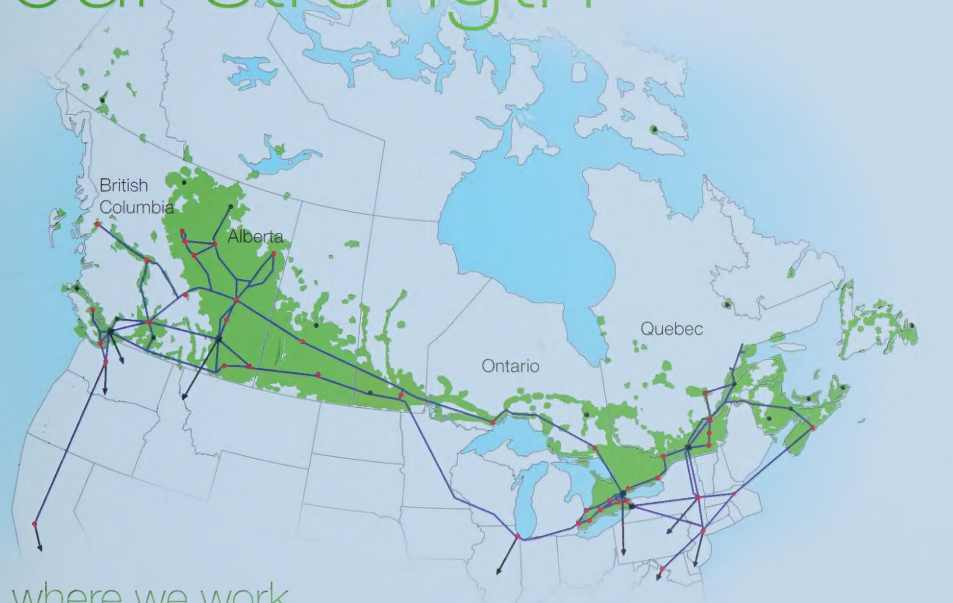
For the complete TELUS story, including our full annual report (corporate and financial review) and our corporate social responsibility report, visit us online at telus.com/annualreport and telus.com/csr.

e-delivery invitation

We invite you to sign up for the electronic delivery of TELUS information by visiting telus.com/electronicdelivery.

building on

our strength



where we work

TELUS' fibre-optic and wireless networks offer a complete portfolio of communications solutions to Canadians from coast to coast. Our national fibre-optic backbone delivers traditional telephony, data services and IP-based solutions. Our two wireless networks provide digital coverage to 98% of Canadians. We have more than 4,000 retail stores and dealer locations across Canada.

Coverage areas are approximate as of December 2008.
Actual coverage and network services may vary and are subject to change.

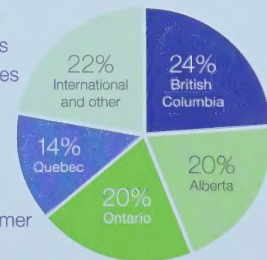
where we serve

Committed to giving where we live, we have established nine TELUS Community Boards across Canada to lead our local philanthropic initiatives. Led by Janet Yale, National Chair, TELUS Community Boards, the local chairs of each Board are:

- Mel Cooper – Victoria
- Nini Baird – Vancouver
- Dr. Bob Westbury – Edmonton
- Harold and Marilyn Milavsky – Calgary
- Rita Burak – Toronto
- Janet Yale – Ottawa
- Bernard Lamarre – Montreal
- Hugues St-Pierre – Rimouski
- General Rick Hillier – Atlantic Canada

where we live

Now 36,600 members strong, TELUS provides communications services across Canada and, through TELUS International, provides business process outsourcing and customer contact solutions to global markets.



building on our environmental commitment

TELUS is committed to working in an environmentally responsible manner and to doing our part to help create sustainable communities.

The paper used in this report is certified by the Forest Stewardship Council (FSC), which means it comes from well-managed forests and known sources, ensuring local communities benefit and sensitive areas are protected.

TELUS has saved the following resources by using New Leaf Reincarnation Matte paper, which is designated as Ancient Forest Friendly and is manufactured with electricity that is offset with Green-e certified renewable energy certificates. This paper has 100 per cent recycled fibre content, includes 50 per cent post-consumer waste and is processed as chlorine-free.

By using this paper, we are reducing our ecological footprint by*:

- Preserving 136 trees
- Saving 111,739 litres of wastewater
- Eliminating 2,930 kilograms of solid waste
- Preventing 4,951 kilograms of greenhouse gases
- Saving 61 million BTUs of energy.

We ask that you please recycle this annual report and the biodegradable polybag in which it was mailed. We promote the electronic delivery of TELUS information and invite you to sign up by visiting telus.com/electronicdelivery. Currently, 38,000 of our shareholders receive information by e-delivery.

This report can also be viewed at telus.com/annualreport. For other examples of our commitment to the environment, please visit telus.com/csr.



*Calculations are based on research by Environmental Defense Fund and other members of the Paper Task Force.

The Ancient Forest Friendly logo represents the highest and most comprehensive standards for environmental responsibility in the paper industry. In order to be Ancient Forest Friendly, a paper must be manufactured with a high percentage of post-consumer waste and no virgin fibre from old-growth, ancient or endangered forests. Any virgin fibre used in the paper must be both FSC-certified and assessed to not originate from endangered forests. Bleaching must be chlorine-free, without the use of chlorine or chlorine compounds.



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